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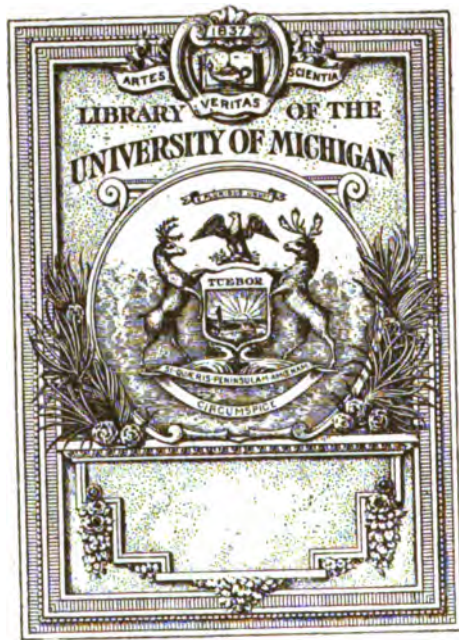
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**THE FEDERAL FARM-LOAN
SYSTEM IN OPERATION**

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THE FEDERAL FARM-LOAN SYSTEM IN OPERATION

By
A. C. WIPRUD
of the Minnesota Bar
Vice President of the Federal Land Bank
of Saint Paul



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THE FEDERAL FARM LOAN SYSTEM IN OPERATION

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To
J. A. O. PREUS
Sincere and Unfaltering Friend

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PREFACE

THE work here presented is the outgrowth of a paper read before a class in Economic History in the School of Business, University of Minnesota, in December, 1919.

In the preparation of the statistical material the author has had at his disposal the statements and documents which have been issued by the Federal Farm Loan Board and the several land banks since the establishment of the Federal farm-loan system. These have been supplemented by such other material as appears in the Bibliography (Appendix C) and the author's observations as an official of the land bank located in St. Paul, Minnesota.

The true object of the Federal Farm Loan Act is not generally understood, though the processes of its operation are not difficult to comprehend. If this presentation assists in a measure toward a general understanding of the real object and worth of this new rural-credit system, it has served a purpose.

The author's thanks are due to the officers of the Federal Land Bank of Saint Paul, and especially to President E. G. Quamme, for their many kindly suggestions; to Prof. N. S. B. Gras, of the University of Minnesota, who assisted in the arrangement of this work; and to Miss Marian Rubins, of the University of Minnesota, for criticism in the preparation of the manuscript and the reading of the proof.

A. C. WIPRUD.

ST. PAUL, MINNESOTA.
January, 1921.

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INTRODUCTION

It is with pleasure that I accept Mr. Wiprud's invitation to write an introduction to his interesting and useful essay on the Federal Farm-loan System.

The public is not sufficiently informed about this great system of agricultural credit which is one of the crowning achievements of the Wilson administration. Even the farmers who are its chief beneficiaries lack adequate knowledge of the law and, therefore, are not realizing the full measure of its benefits. Every book and publication which disseminates reliable information about this farm credit system is performing useful service. Mr. Wiprud's contribution is therefore very opportune.

By the terms of the law it fell to my lot, as Secretary of the Treasury at that time, to become chairman (*ex-officio*) of the Federal Farm Loan Board, and together with four able men who were appointed members of that board, George W. Norris of Pennsylvania, Charles E. Lobdell of Kansas, W. S. A. Smith of Iowa, and Herbert Quick of West Virginia, to hold hearings throughout the United States, to divide the country into twelve Federal farm-loan districts, and to establish a Federal land bank in each.

The banks were organized in the latter part of 1916. Before they had gotten well under way the United States became involved in the European war, so that

the system has not had a fair chance to function under conditions of peace and normality. Notwithstanding this fact, the banks have made encouraging progress, as is evidenced by the great number of long-time amortization mortgage loans which have been placed among the farmers of the country.

During the years 1917 and 1918, when the demands occasioned by the war for credit were so imperative and controlling, it was necessary to stop public offerings of Federal farm-loan bonds, but it was essential to keep the land banks functioning so that the farmers could secure needed credits. The Congress, therefore, authorized the Secretary of the Treasury to purchase, during the years 1917 and 1918, not exceeding \$100,000,000 per annum of bonds of the Federal land banks. While this took care partially of the emergency, it destroyed, for the time being, the market for land-bank bonds, and postponed the diffusion of that general knowledge of Federal farm-loan securities which the distribution of the bonds among private investors would have produced and which is so essential to the successful operation of the system.

Now that the banks have resumed business, it is more than ever important that the investing public, as well as the farmers, shall have a comprehensive understanding of this great system of agricultural credit. While I shall not attempt to discuss it in detail, I should like to call attention to one point, namely, that two kinds of banks are authorized under the farm-loan law: first, the Federal land banks, twelve of which are in operation and cover by their jurisdiction the whole of continental United States;

and second, the joint-stock land banks, which are voluntary organizations and are permitted to do business only in the state where their principal office is located, and in one contiguous state. The business of each class of banks is restricted to the making of first mortgage loans on farm lands on the amortization plan only.

The Federal land banks are largely government institutions because practically the whole of their capital stock was subscribed by the United States Treasury, and until that is repaid the Federal farm-loan board exercises a determining influence upon their operations. These land banks can make loans only through the agency of what is called National farm-loan associations, which are organizations of farmers who wish to borrow money.¹ This is the so-called co-operative plan of farm credits. It possesses many meritorious features and is or ought to be the backbone of any agricultural credit system. The primary purpose of the Federal land banks is to take care of the smaller loans which may be needed by farmers who are actually engaged in cultivating their farms, and they are not permitted to lend to any one borrower more than \$10,000. Their field of operation is therefore limited. But agriculture in this country has been developed on such a large scale that a system of credit which cannot accommodate borrowers who want loans in excess of \$10,000 is manifestly inadequate. The Congress therefore very wisely authorized another class of banks—the so-called joint-

¹Where no Farm Loan Association exists, the Federal Farm Loan Board may appoint agencies through which the Federal Land Banks may make loans.

stock land banks. They depend wholly upon private initiative and capital for their organization and are permitted to make loans not exceeding \$50,000¹ to any one borrower. So that, with the Federal land banks and the joint-stock land banks, the Congress has established an agricultural credit system with authority to make loans to individual borrowers secured by long-time mortgages on farm lands, up to, but not exceeding, \$50,000. During the war with Germany the operations of the joint-stock land banks, like those of the Federal land banks, were greatly restricted. Now, however, they are free to do business again. I am sorry that Mr. Wiprud has not brought out more fully the advantages of, as well as the necessity for, the joint-stock land banks, because the field for each class of banks is so large, and they complement each other so beneficially that our agricultural industry will not be satisfactorily served without both.

Not only did the war arrest the progress of the Federal land banks and the joint-stock land banks, but shortly after the armistice an attack was made by certain selfish interests on the constitutionality of the Federal farm-loan law. This started a long litigation which finally resulted in a decision (February 28, 1921) of the Supreme Court of the United States sustaining the validity and constitutionality of the Farm Loan Act. Between the war in Europe, which suspended the operation of the land banks, and the war in the Federal courts, which put them out of business until the recent decision of the Supreme Court, the Federal and joint-stock land banks have had small chance to serve the

¹The act imposes no limitations but the regulations of the Federal Farm Loan board places this restriction.

country, but the system was founded on right and necessity, and has, therefore, survived.

The exemptions from taxation of the mortgages made by farmers to the banks, and of the bonds issued by the banks upon the security of such mortgages, was the chief point of attack in the courts. But these exemptions must be maintained because they are absolutely necessary if the farmers are to be assured an ample supply of long-time credits at reasonable rates of interest. There is no reason why the farmers should not receive the benefits of these tax exemptions on the long-time amortization loans authorized by the law. They cannot otherwise command the necessary capital at reasonable rates to carry on their vital operations, and certainly the importance of their business entitles them to as favorable accommodations as are granted to other industries. So long as states and municipalities make their bonds free from all taxation, the bonds of the land banks are brought into competition with such tax-exempt securities; therefore the tax exemption must be extended to the bonds of the land banks, if the farmer is to get the long-time credit he needs at reasonable rates of interest and on reasonable terms. Happily this question was settled by the decision of the United States Supreme Court and the way is now cleared for the operation of the Federal land bank system upon a scale which ought to bring great and lasting benefits to the farm industry of the United States.

It is a strange thing that throughout American history so little constructive and comprehensive work has been done to conserve the agricultural industry of the

country. This industry is absolutely vital to the existence and prosperity of the people. Farmers as a class do not want superior advantages or benefits conferred upon them by legislation. They do want equal opportunity, and to get that equal opportunity they must have sufficient credit facilities at all times, and these must be available to them on as reasonable terms and at as low rates of interest as are allowed to our business men and manufacturers, due regard being had, of course, to the security offered and to the conditions applicable to each. In other words, agricultural credit should be as available as commercial credit, and upon equally favorable terms all things considered.

This new agricultural credit system, the Federal farm-loan system, is a genuine blessing to the farmers of the United States. It will prove its usefulness more and more as it grows and develops. We must see to it that neither selfish nor designing interests, nor subservient nor crooked politicians, shall be permitted to emasculate or weaken or destroy it. What the farmers have gained after years of hard and painful fighting, they must keep. The farm-loan system can be extended and enlarged by judicious legislation so that it will be more serviceable to the farmer than the existing law. To cite an instance, I think the Act should be amended so as to permit the Federal Lands Banks to make loans up to \$25,000.

But a wonderful beginning has been made, and with sympathetic and intelligent administration by the Farm Loan Board and friendly co-operation on the part of the Congress and the President of the

United States, this great system of agricultural credit will become a very rock of Gibraltar for agricultural prosperity. If this is now supplemented by an intelligent system of warehousing and by co-operative organizations for the financing, marketing, and distribution of farm products, a new and brighter future will open to the American farmer.

W. G. McAdoo.

NEW YORK, *June, 1921.*

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**THE FEDERAL FARM-LOAN
SYSTEM IN OPERATION**



THE FEDERAL FARM-LOAN SYSTEM IN OPERATION

I

FRAMEWORK OF THE FEDERAL FARM-LOAN SYSTEM

THE Federal farm-loan system was provided for by an Act of Congress, in 1916, and established in the same year. Its purpose is to supply to American farmers the long-term credit which will enable them to develop and expand their farming operations. The establishment of a national rural-credit system in this country was not the work of a small group of men, nor the result of merely a few years of agitation and effort. The subject had been discussed periodically by our statesmen, bankers, economists, and occasionally by our farmers, since the early days of our country. It was in the decade preceding the enactment of the law, however, that public sentiment was aroused to such a degree as to bring about official action. The previous lack of progress or improvement in rural credit was attributable to economic conditions, chiefly the depression of 1907-1914. So long as these conditions prevailed, especially

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I

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The establishment of a national rural-credit system in this country was not the work of a small group of men, nor the result of merely a few years of agitation and effort. The subject had been discussed periodically by our statesmen, bankers, economists, and occasionally by our farmers, since the early days of our history. It was in the decade preceding the enactment of the law, however, that public sentiment was crystallized to such a degree as to bring about official action. The previous lack of progress or improvement in our rural credit facilities is attributable to economic conditions, chief of them our abundance of cheap land. So long as the West beckoned to the land hungry, and especially to those who could not

afford a farm in the well-developed sections of the country, the problems of rural finance had been of secondary importance, because it was possible for anyone, whether his means were great or small, to secure some land to farm. Within the present generation, however, the extensive public domain of the West has been settled, and with this settlement has come the rise in land values.¹ Increased land values called for larger amounts of capital and more intensive methods of farming. Attention then turned to the subject of farm finance, which became a question of first importance.

Co-operative credit for agricultural purposes originated in the United States, and not in Europe as is popularly supposed. The idea was conceived in Connecticut. In 1732 sixty-one landowners of the colony of Connecticut organized the New London Society United for Trade and Commerce.² They paid for stock subscribed by giving their promissory notes secured by mortgages on their lands. The only borrowers from the society were its stockholders, who had complete control of its management. The char-

¹ There are still tracts of public lands open for settlement within irrigated districts. These lands, however, have not been attractive to the settler, largely because he finds the price of the land and the cost of operating it high, and because he has insufficient knowledge of the methods employed in farming irrigated land. The comparatively high prices charged for irrigated land are not indicative of the value of land in the vicinity, except as such land is itself irrigated, and cannot be attributed merely to settlement. The same problems of financing exist here, for an irrigated farm, even more than other high-priced land, must be operated intensively.

² The public Records of the Colony of Connecticut, vol. vii, p. 390. See also:

"Currency and Banking in the Province of the Massachusetts Bay," by Davis, in *American Economic Association Quarterly*, May, 1901.

ter granted it by the Connecticut Assembly authorized it to emit against these secured notes bills without interest, which became popular immediately and circulated freely as money. This effort, however, was discontinued, owing to the opposition of the government of the colony. And to European countries, particularly Germany, is accorded the honor of establishing rural-credit systems and bringing them to a high degree of efficiency and usefulness.

Since the venture of the Connecticut landowners, a few attempts have been made to establish state rural credit institutions by legislative action, but further efforts have been discouraged, owing largely to the lack of interest on the part of the farmer-borrowers and to the imperfections of the earlier systems. The efforts that were made, however, stimulated certain individuals who were interested in improving farm-credit facilities and introducing co-operative credit into the United States, to discuss through the press and otherwise what had been accomplished in European countries and on this continent.¹

This work was aided by official investigations, the earliest publication on the subject appearing in 1892.² By 1910 the question was beginning to be widely discussed. In March, 1912, the President of the

¹ "The Schulze-Delitzsch Banks," by Villard, in *Journal of Social Science*, 1869.

"Currency and Banking in the Province of the Massachusetts Bay," by Davis, in *American Economic Association Quarterly*, December, 1898, and May, 1901.

"Co-operative Credit Associations of the Province of Quebec," by McPherson. Thesis submitted to the faculty of the Graduate School of Arts and Literature of the University of Chicago (1910).

For other works see the Bibliography.

² "Co-operative Credit in Certain European Countries," by Peters, in *United States Department of Agriculture Bulletin*.

United States, through the Secretary of State, instructed the embassies in Germany and Italy and the legations in Belgium and the Netherlands to conduct investigations and make report on land credit in those countries. In the year 1913 Congress authorized the appointment of the United States Commission to co-operate with the American Commission appointed the previous year by the Southern Commercial Congress,¹ for the purpose of investigating co-operative agricultural organizations and institutions in Europe. The reports of these commissions contain a fund of information bearing on rural credit institutions in European countries.²

The report of the United States Commission³ included a draft of a proposed rural-credit law, which constituted the formal recommendation of the commission, and was known as the Moss-Fletcher, or Commission, bill. This bill authorized the establishment of small and independent joint-stock land banks (originally to be organized with a minimum capital stock of \$10,000, which was later raised to \$100,000), with power to issue bonds against first mortgages held by them on farm lands. These banks were to be under Federal supervision, and were intended to make loans direct to farmers. As a result of the work of the congressional committees on banking and cur-

¹ The Southern Commercial Congress, at its convention held in April, 1912, at Nashville, Tennessee, authorized the appointment of a national representative commission to visit Europe for the purpose of studying the various rural credit systems in operation there. This commission was composed of about seventy-five delegates, representing twenty-nine states and four provinces of Canada, and was known as the American Commission.

² Senate Documents Nos. 214, 261, and 380, Sixty-third Congress.

³ Senate Document No. 380 (January 29, 1914).

rency during the years 1913 and 1914, there was formulated and introduced into Congress what became known as the Hollis-Bulkley, or Committee, bill. This bill provided for not less than five regional Federal land banks, with power of issuing bonds similar to that provided for in the Commission bill. Farmers desiring loans from such banks, however, were not to obtain loans direct, but would be compelled to become members of local farm-loan associations, through which loans would be obtained from the land banks. No action was taken on either the Commission or the Committee bill, but the bill finally enacted into law contained the outstanding features of both, and therefore has been termed a compromise. On account of disagreement in Congress with reference to the matter of Federal aid in providing rural-credit facilities, the whole subject was referred to a joint congressional committee on rural credits in the spring of 1915. The bill drafted by this joint committee, with certain changes, became law, July 17, 1916, and is known as the Federal Farm Loan Act.

The Act is a clear, concise, and comprehensive piece of legislation. The language is specific and not difficult of interpretation. This is not generally the result where so many individuals and groups of individuals in and out of Congress have asserted their ideas and demanded that they be incorporated into law. It is a commonly known fact, for example, that the Federal Reserve Act has been difficult of interpretation, and Congress has found it necessary to amend the Act to make clear its meaning. The farm-loan system has functioned successfully without any cor-

rective or interpretative amendments; in fact, the law was not amended until May 26, 1920, almost four years from the date of its passage.¹ At that time a series of amendments was recommended to Congress by the Farm Loan Board as being "desirable in the direction of eliminating expense and lost motion."² It was practical experience in the operation of the system that had demonstrated them to be necessary, and they cannot, therefore, be considered the result of faulty drafting or poor judgment on the part of the authors of the Act.

The purpose of the Farm Loan Act is to furnish to our agricultural industry a channel through which it can market its security in accordance with its needs. What is meant by the credit needs of agriculture will be discussed later.³ It is sufficient for the present to state that credit in the form best adapted to the wants of American farmers had not been previously provided; in fact, their needs had been subordinated to the demands of mortgage houses and other institutions dealing in mortgage loans. The question was not whether a particular loan would enable a farmer to carry out his individual project, no matter how beneficial it might be in the development of his farm, but how money could be placed to the best possible advantage for the individual or institution having money to loan. That this worked a hardship on the farmer is apparent, for not only was he compelled to accept money under terms and conditions which in

¹ Public Document No. 182, Sixty-sixth Congress.

² Third Annual Report of the Federal Farm Loan Board, p. 18.

³ See chaps. iv and v.

many instances were unnecessarily burdensome, but he was never certain that he could secure funds when they were most needed.

The Federal farm-loan system attempts to remedy this situation to the mutual benefit of the farmer and the lender. The necessary machinery is to be operated under the supervision of the government. In the Treasury Department of the United States is established the Federal Farm Loan Bureau, supervised by the Federal Farm Loan Board, in which the control of the entire system is centralized. The members of this board consist of the Secretary of the Treasury, who acts as chairman *ex officio*, and four members appointed by the President of the United States. These four members are appointed to serve a term of eight years.

The initial task of the Farm Loan Board was of lasting consequence. Continental United States, excluding Alaska, was to be divided into twelve loaning districts and a Federal land bank established in each district, with its principal office located in such city within the district as the board should designate. Though the Farm Loan Act provides for the readjustment of the boundaries of these districts from time to time, it is hardly likely that any readjustment will be made, in view of the work that would be involved in transferring loans, records, and documents from one district to another, as well as in the complete revision in methods employed within each district. In any organization of nation-wide scope, a readjustment of its principal units necessitates a more detailed revision of its whole mechanism. The judgment of the Farm

Loan Board in mapping out the land-bank districts in the first instance was, therefore, virtually final.

A series of hearings was conducted by the board during the months of August, September, October, and November, 1916, for it was early decided that the "farm-loan needs" of the country could not be properly determined from reports and statistics. During the above period fifty-three hearings were held in forty-four states, at which farmers, as well as officers of farmers' organizations, county agents of the Department of Agriculture, local bankers, and others had an opportunity to submit such information as bore on the needs of their community. In this manner the Farm Loan Board secured a mass of maps, charts, and statistical information of great value and interest.

In determining the size and boundaries of the Federal land-bank districts, the Farm Loan Board took into consideration the following nine factors:

1. Total land area.
2. Area of land in farms.
3. Area of improved land in farms.
4. Number of farms mortgaged at that time.
5. Amount of outstanding mortgage indebtedness.
6. Value of farm lands and buildings.
7. Gross value of farm products.
8. Total population.
9. Rural population.

The results obtained by averaging these factors the board modified by two other considerations—first, whether the prevailing rate of interest in the state in question was such as would be likely to lead to a rapid shifting of farm loans from existing holders to Federal land banks, and, second, whether the

proposed district was well developed agriculturally, or whether its agricultural resources were still largely undeveloped. Consideration was also given to arguments in favor of creating "one-crop" districts or districts in which farming conditions were similar. It was the judgment of the board, however, that whatever advantages could be claimed for districts so established in the making of appraisements and passing upon loans by the directors of a bank, they were overbalanced by the fact that a crop failure in such districts "might involve an undue proportion of foreclosures and temporarily prejudice the credit of the Federal land bank of that district." The board was also of the opinion that those states whose farm-loan securities were not well or favorably known would be better served if combined with states more favored in this respect than if a district was composed entirely of such less-favored states.¹

The principal factors in determining within each district the city in which the land bank should be located were:

1. A reasonable approximation to the geographical center.
2. Prompt and frequent train and mail service.
3. Climatic conditions that would not impair the efficiency of the force.
4. Congenial environment.

The board expressed itself as being opposed to the location of the banks in such centers of population as New York or Chicago, for the reason that the principal function of the banks was to serve the "farm-loan needs" of the country and they should therefore be

¹ First Annual Report of the Federal Farm Loan Board, pp. 9-10.

located in cities having a more active interest in agriculture.¹

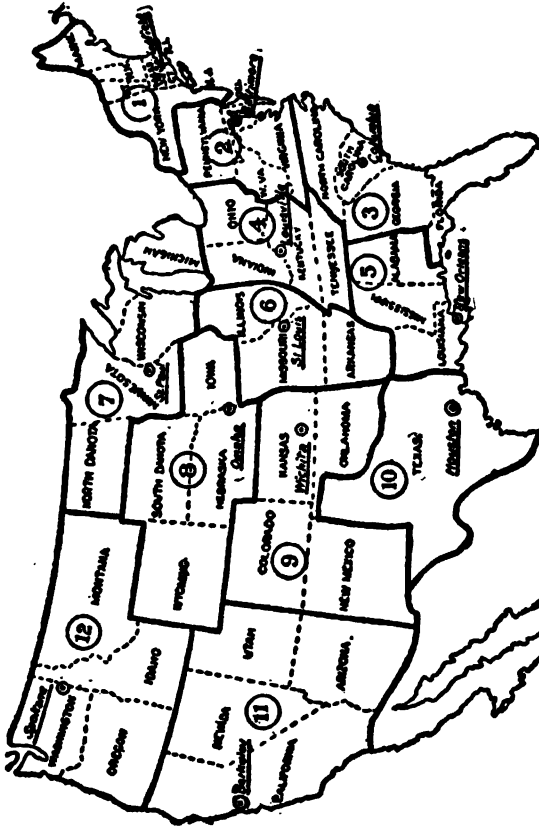
The Farm Loan Board is assisted by farm-loan registrars, one appointed for each land-bank district, to supervise the issue of farm-loan bonds and have custody of all securities underlying such bonds. Land-bank appraisers are also appointed by the board and assigned to each district to determine the value of the property offered as security. These two functions—the approval of the issue of bonds and the final approval of the security underlying them—constitute the most important functions of the board. It is through these that it exercises a rigid control of the activities of the land banks.

The organization of each of the land banks was placed in charge of a temporary board of five directors.² To it fell the detail work of organizing and systematizing incident to the establishment of a new institution. This work was made more difficult by the early demands made for the banks' service and the immediate influx of applications for loans.³ It is the duty of the

¹ First Annual Report of the Federal Farm Loan Board, p. 10-11.

² These five directors were appointed by the Federal Farm Loan Board, as provided by law, and constituted only the temporary management of the bank. After subscriptions to the stock of any land bank by national farm-loan associations shall have reached the sum of \$100,000—which will be when the bank has made loans to the amount of \$2,000,000—the Act provides that the permanent organization is to supersede the temporary one. The permanent organization is to consist of nine directors, six of whom, known as "local directors," shall be chosen by, and be representative of, farm-loan associations, and the remaining three, known as "district directors," shall be appointed by the Farm Loan Board to "represent the public interest." The delay in putting this latter feature of the system into operation arises out of the problems of financing the system. (See Chapter II and footnote, p. 30.)

³ During the first six months of operation approximately \$200,000,000 in applications for loans were received by the land banks.



MAP SHOWING THE DIVISION OF THE UNITED STATES INTO (12) FEDERAL LAND-BANK DISTRICTS AND CITIES IN WHICH THE FEDERAL LAND BANKS ARE LOCATED

land bank to receive applications, assign them to the appraisers for inspection and valuation of the properties offered as security, and through its board of directors approve applications for loans if the findings so warrant. When a stipulated amount of loans have been approved and remittance made (in the aggregate not less than \$50,000), bonds are issued by the land banks in an equal amount against such loans as security. This function constitutes the primary business of each of the twelve land banks. The bookkeeping work in connection with the making of loans and the issuance of bonds and the filing of all records is, of course, done by the land banks.¹

The authors of the Farm Loan Act, however, realized that the land banks were too far removed from the farmers to render satisfactory service. It was necessary to establish a smaller unit, somewhat similar to the agencies established under the prevailing practice of farm-mortgage banking, to which the farmer would have ready access and to which he was known. The purpose of the authors of the Farm Loan Act was to get away from the agency system and to establish in its place co-operative associations of farmer-borrowers through which the business of the system could be transacted, thereby eliminating the added expense of the old method of making farm-mortgage loans. The

¹ The Farm Loan Act (Section 16) provides for the organization of joint-stock land banks under the direct supervision of the Farm Loan Board. These banks are, as the name signifies, joint stock companies, which are financed by private capital and in which the farmer-borrower has no financial or other interests. While the joint-stock land banks are a distinctive part of the Federal farm-loan system, the purpose of this book is to present the system in its co-operative aspects rather than to give a technical analysis of all of the provisions of the Farm Loan Act. (See Appendix A.)

national farm-loan association feature of the Farm Loan Act is an adaptation of the basic principle of co-operative land-mortgage banking — co-operation of borrowers—as developed in European countries, and therefore cannot be said to be an experiment. There was, however, some doubt whether this principle could be successfully applied to American conditions. The authors of the Farm Loan Act guarded against such a contingency by authorizing the appointment by the land banks of special local agents, in the event of failure to form farm-loan associations in any given territory.¹

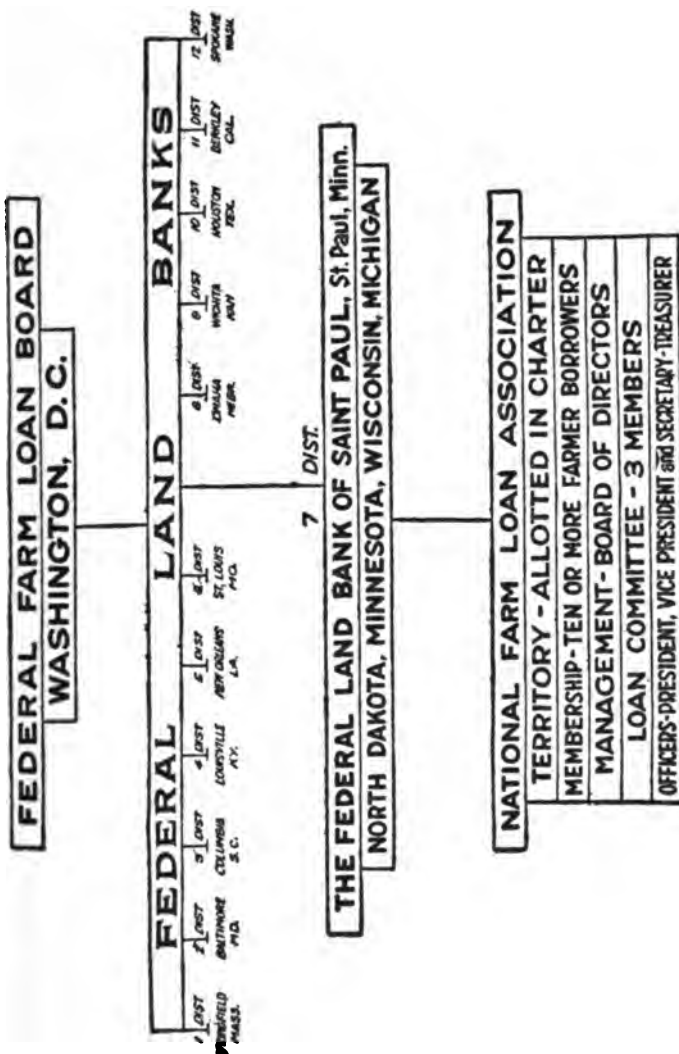
In making the national farm-loan associations an essential part of the farm-loan system Congress sought to cultivate a spirit of co-operation among farmers. It is plain that a number of farmers associated together for a definite purpose can present a stronger case than one farmer standing alone. It is the old story over again of the gentleman who, knowing he was about to die, called his sons to him. He had a bundle of sticks in his hand. He gave one to each of them and said, "Break it," and each stick was easily broken. And he took as many sticks as there were boys and tied them together, and he said, "Break that." And they could not break it. What is true of that bundle of sticks is

¹ The Farm Loan Act authorizes the appointment of an agent (one year from the date the Act became effective, which was fixed by the Farm Loan Board as one year from August 7, 1916, the date on which the board qualified and organized) where it appears that a national farm-loan association cannot be formed, such agent to be a "duly incorporated bank, trust company, mortgage company, or savings institution, chartered in the state in which it has its principal office." Owing to the rapidity with which the farmers have organized farm-loan associations in every section of the United States, only eleven agents have been appointed thus far (December 1, 1920), all of them being in the seventh land-bank district.

just as true of our daily efforts. We cannot do much in this world as individuals. This applies with equal force to our farmers, though they have been known to be essentially individualistic and not inclined toward co-operation in any form. In many sections of the United States, however, individualism has given way to organized effort on the part of the farmers, particularly in the marketing of their products. It was the hope of Congress, in providing the association feature, that the farmers would realize the advantages of co-operation in financing and would tend to associate for other legitimate ends.

Congress did not intend, nor does the Farm Loan Act intend, to encourage the extension of credit without adequate security. The object Congress sought was to determine ways and means whereby farmers could improve the form and quality of their security. In arriving at a solution of this problem many proposals were made. The most extreme involved the making of loans direct to the farmers from government funds. The principle finally adopted, however, was that the Federal government should encourage and assist in the establishment of the necessary machinery and supervise its operation; that, aside from such assistance, as will be hereafter explained¹, the government's cash or credit should not be utilized for the improvement of farm credit. The machinery for the carrying out of this principle is found in the national farm-loan association, through which, by collective indorsement, the farmers can so improve their security as to entitle them to credit on a sound investment basis.

¹ See chaps. ii and iii.



National farm-loan associations are the local organizations upon which the Federal farm-loan system is based, and through which the land banks carry on their loaning operations. National farm-loan associations are corporations chartered by the Farm Loan Board, the charter delimiting the territory within which each association may operate. The area covered by an association is rarely larger than that of a county, though associations are not confined to county lines. These associations do not lend money to their members. Their function is rather to enable members to meet certain requirements and thus obtain loans from the land banks on better terms than from other sources. In addition to the work of appraising a member's property offered as security, transmitting all papers and documents to the land bank, and other work incident to closing a loan, the local association contributes to the financial standing of a member's security by indorsing the borrower's mortgage note. The local association thus performs services for the farmer member which otherwise would be performed by other agencies at added expense.

Ten or more farmers, applying for \$20,000 or more in loans, must in the first instance unite to form an association. The initiative lies with the farmers because the association is the only door through which they can enter into the benefits of the system.¹ It was freely predicted, in and out of Congress, during the consideration of the Farm Loan Act, that the farmers would not associate for the purpose of organizing farm-loan associations because they were reluc-

¹ See footnote 1, p. 13.

tant to make public their financial needs. This should not be and is not true of farmers who are interested in securing credit for productive purposes. Inasmuch as the Farm Loan Act limits the purposes for which loans can be made to the development of agriculture, specifically enumerating those purposes, the farmers have rapidly come to realize that any publicity incident to securing a Federal farm loan is notice to the world that they are properly developing and expanding their farming operations, a fact of which they can be justly proud. The rapidity with which farm-loan associations have been formed throughout the entire United States is evidence of the fact that the American farmers will co-operate when they realize that it is to their advantage to do so.¹

The affairs of each association are in charge of a board of five or more directors who are elected annually.² This board elects from its number a president,

¹ Three thousand nine hundred and sixty-six national farm-loan associations had been organized up to December 31, 1920. In fact, there are more associations formed than there are counties in the United States. There is very little agricultural territory not already included within the boundaries of one or more existing associations. It is, therefore, unlikely that there will be any appreciable increase in the number of associations from this time on, inasmuch as those already formed will tend to increase in size and strength, thus attracting to themselves any prospective borrowers and obviating the necessity of forming new associations within their territory. Any increase in number, however, will be offset by the policy of the Farm Loan Board of encouraging the consolidation of the weaker associations.

² The Farm Loan Act provides that the directors of national farm-loan associations shall be elected "in the manner prescribed for the election of directors of national banking associations," and that they "shall hold office for the same period as directors of national banking associations." Section 5145, Rev. Stat. (Section 232, National Bank Act, as amended, etc., 1919), provides that directors "shall be elected by the shareholders" and "shall hold office for one year." The instructions of the Comptroller of the Currency relative to the organization and powers of national banks, 1919 (Section 72), states that "in all elections of directors . . . each shareholder shall be

a vice president, and a loan committee of three members. It is also their duty to choose "in such manner as they prefer" a secretary-treasurer, who need not be a member of the association. The secretary-treasurer is the active executive officer of the association, and upon his ability, energy, and interest in the association depend largely its success and growth. He is custodian of the association's funds, securities, records, and documents and carries on its routine business, such as the disbursement of funds forwarded by the land bank, collection and transmission to the land bank of all payments made on loans and the like. He is also required to ascertain and report to the land bank any delinquencies upon the part of the members of the association in the matter of the taxes due upon lands mortgaged to the bank. To insure the proper performance of these duties, the secretary-treasurer is required to give a "suitable" surety bond as prescribed and approved by the Farm Loan Board, to which, in fact, he must make a complete report quarterly of the operations of the association. The compensation of the secretary-treasurer, the expenses allowed the loan committee, and the like, must be

entitled to one vote on each share of stock held by him" (see Section 8, Farm Loan Act); "the date of the annual meeting of the shareholders of a national bank is fixed in the articles of association, and those shareholders who attend this meeting may transact the business of that meeting—that is, elect directors, although stockholders representing a majority in interest are not present. . . . Only stockholders will be elected directors who receive a majority of all the votes cast at the election." The section of the National Bank Act above quoted, and the Instructions of the Comptroller of the Currency, govern the election of directors of national farm-loan associations, with the exception contained in Section 8, of the Farm Loan Act, which reads, "The maximum number of votes which may be cast by one shareholder shall be twenty."

arranged by the associations themselves and adjusted according to their local conditions and needs. By a recent amendment to the Farm Loan Act, a limitation to the amount that can be levied for this purpose is fixed at one per cent of the amount of the loans applied for.¹

It is evident that as time goes on the operations of the farm-loan associations will become extensive. In fact, at this writing (February, 1921) there are a number of associations whose membership exceeds two hundred, and to whom loans have been made in excess of a half million dollars. These associations own as much as \$25,000 of stock in the Federal land banks of their respective districts, upon which they have received \$1,500 or more in annual dividends on a 6-per-cent basis, which, with a few exceptions, the land banks have established. The operations of the farm-loan associations compare favorably with those of the larger country banks, and emphasize the necessity of the greatest care in the conduct of their affairs. From the farm-loan association, up through the superstructure of land banks to the Farm Loan Board, the system is so interwoven as to form a complete financial fabric. Therein lies its strength.

¹ Public Document No. 182, Sixty-sixth Congress.

II

METHOD OF FINANCING

THE making of loans presupposes, of course, funds with which to make them. First consideration must therefore be given to the problems of financing the Federal farm-loan system, for its success rests upon its ability to secure funds in ample and continuous volume from a reasonably certain source of supply.

In considering what constitutes the source of money supply, we should, of course, direct our attention to the commercial banks, for it is to them that a large part of the money of the nation is intrusted. The cash deposits which they receive, and which are the basis of their loans, they must at all times be prepared to restore either on demand or within a comparatively short time. For this reason they cannot properly invest in other than short-term mortgages or thirty to ninety days' personal credits. In other words, deposits must be invested so that a steady stream of payments is flowing into the banks, giving them a chance to expand or contract their loans in response to the rise and fall in the supply of deposits. A commercial bank can make loans for a period sufficiently long to cover the ordinary commercial transaction, but from a practical banker's point of view ought not to make loans for a longer period, and therefore funds from

a commercial bank cannot be invested in long-term mortgages, regardless of how beneficial they may be to agriculture.

Through the Federal Reserve Act an attempt was made to extend greater accommodations to American farmers. National banks were encouraged to make personal loans to farmers for periods of six months, and were, to a limited extent, permitted to loan on improved farm lands for periods not exceeding five years.¹ While this was a step in the right direction, it did not increase appreciably the funds available for farm loans, because the five-year maximum period was not sufficient to care for the farmer's long-term requirements, and because the commercial banker was inclined to keep well within the loaning limit prescribed by law.

The commercial bank has a legitimate claim to the deposits of the nation for the exclusive purpose of making loans to the business man to carry through a commercial transaction, or to the farmer for a short period of time. What funds, then, can be said to be available for long-term investment, at low rates, and in ample supply? It is evident that an investment of this character, if it possesses safety and ready convertibility, need not carry a high rate of interest. Funds available for such an investment can be said to include the savings of the school-teacher, clerk, minister, and wage earner; the proceeds of life insurance in the hands of widows and other beneficiaries; funds belonging to estates, minors, and wards; funds of insurance companies, benevolent orders, and societies of various kinds; and endowments of colleges,

¹ The Federal Reserve Act, Sections 13 and 14.

hospitals, museums, and other institutions. These are the funds that should be available to the farmers on long-term mortgages. Their sum total is enormous. But it is important that the farmer's security be made as attractive an investment as possible to individuals or institutions controlling these funds, and that the funds be placed in the hands of the farmer on the most favorable terms. To serve this double purpose the Federal farm-loan system was designed.

It was necessary before any land bank could begin business that a relatively small capital stock be subscribed. The amount fixed was \$750,000, divided into shares of \$5 each. While the Farm Loan Act provided that any individual, firm, corporation, or the government of any state, or the United States, was eligible to subscribe for stock in any land bank, as a matter of fact only a small portion of the stock was taken by the public. It remained for the Secretary of the Treasury, as contemplated by the Act, to subscribe on behalf of the United States nearly all of the capital stock of all of the land banks.¹ The stock held by the government receives no dividends, but carries voting power.

The proposal of government aid in establishing a rural credit system was a source of protracted discussion during the consideration of the subject of rural credits in Congress. Staunch exponents of indi-

¹ As required by law, books were opened by the Farm Loan Board to receive public subscriptions to the capital stock of the respective land banks. Only \$107,870 in stock was subscribed by the public in all the land banks, and it therefore remained for the Secretary of the Treasury to subscribe the balance—\$8,892,130—on behalf of the United States.—First Annual Report of the Federal Farm Loan Board, p. 13.

vidualism, as proclaimed by Adam Smith, were opposed to government aid in any form. There were those (shall we call them socialists?) who believed that the government should do that which, as a matter of fact, the individual could do much better, advocating a system *saturated* with government aid. Some believed that the days of individualism had gone forever and were equally opposed to the other extreme. For convenience they may be called *moderate*, believing that the government must step in to do certain things that the public welfare seemed to demand, leaving as much of the general business of the country as possible to individual effort. The rural-credit bill as finally enacted into law conformed to the views of the *moderates*, affording another illustration of the compromising character of American legislation.

The discussions of government aid in official documents and periodicals of the time contain many interesting arguments. This aid to agriculture was advocated because of existing conditions and because of grants made to other industries, particularly the shipping and railroad industries. It is clear, however, that the use of funds subscribed by the government to capital stock in the land banks can be justified only upon the ground of performing a public service, such as the improvement or development of American agriculture. It could not be countenanced if such funds were to be used to encourage speculation or diverted to other than a public purpose. The Federal farm-loan system was to be launched in the interests of agriculture—to develop and promote the basic in-

dustry of the United States—which, if its establishment depended upon subscriptions from the public, appeared impossible.¹ Congress, having decided that the Farm Loan Act was a measure in the interest not only of agriculture but of the nation at large, insured its immediate establishment by placing at the disposal of the land banks government funds in such amount as was necessary to complete their capital stock subscriptions. These funds, however, do not constitute a permanent investment on the part of the government. The Farm Loan Act provides that when the amount of capital stock subscribed by national farm-loan associations in any land bank aggregates \$750,000, the land bank shall apply semiannually 25 per cent of further stock subscriptions to the retirement of the stock originally subscribed. This is now being done.² The contribution, then, of the government to the establishment of the land banks was the use, for a limited time, of capital, the right to dividends on which is expressly waived in the Farm Loan Act.

If the land banks were limited merely to turning over their capital, they would function in a comparatively small way. The capital of each land bank would be exhausted within a few weeks after it commenced to close loans. It was therefore necessary to make provision for the raising of funds with which to make further loans. To accomplish this purpose Congress provided that the land banks should issue

¹ See footnote 1, p. 22.

² Of the amount (\$8,892,130) of stock subscribed by the government, \$2,059,450 has been retired.—Consolidated statement, issued by the Farm Loan Board as of December 31, 1920.

bonds based on the collective security of many individual mortgages on real estate. European experience had shown that land-mortgage bonds, issued under strict government supervision, form an ideal investment because of their great stability of value, uniformity, and convertibility into cash upon moderate notice. A security of this nature could be marketed at low rates and in considerable volume.

The Farm Loan Act authorizes the issuance of bonds on the theory that if the bank exhausted a portion of its capital in making loans, it could pledge these loans as security for bond issues, sell the bonds, and receive the proceeds before the capital of the bank would be exhausted. This theory, however, overlooked the fact that the capital of some of the land banks was not sufficient for their business; that a large part of this capital was necessarily tied up in a *float*—that is, payments pledged to farmers or in transit, those loans being not then available as security for bond issues; and that the mechanical procedure of converting loans into bond schedules and bonds into cash involved a necessary but prohibitory delay. While the Farm Loan Act authorizes the issuance of bonds in series as small as \$50,000, as a matter of actual practice bonds have been issued only in series of \$250,000, and sold in large blocks for delivery at some future date, in order to insure the uninterrupted operation of the land banks.

Some limitation, of course, had to be placed upon the extent to which the land banks could issue bonds. This the Farm Loan Act set at twenty times the land bank's capital and surplus, which means that in ad-

dition to the mortgages placed as security for each bond issued, the land bank holds in the shape of capital and surplus one dollar in cash or in quick assets for every twenty dollars of Federal farm-loan bonds outstanding. The Farm Loan Act provides for increase in capital stock, in that each borrower is required to subscribe an amount equal to 5 per cent of his loan in the capital stock of the national farm-loan association,¹ and the association in turn subscribes an equal amount of stock of the land bank. Owing to the fact that the Act authorizes land banks to make loans up to twenty times their capital and surplus, it is evident that the amount of loans that can be made through the system is unlimited, because the ratio between the loans made and the capital stock of the land banks automatically adjusts itself to twenty to one, as the volume of business increases.²

The desirability of Federal farm-loan bonds from a long-term-investment standpoint, does not, as has

¹ This 5-per-cent stock subscription of the borrower is paid back to him when his loan is paid and is not in the nature of an extra bonus or charge. It is an investment upon which the borrower receives such dividends as may be declared.

² Every land bank carries to reserve account 25 per cent of its earnings, as required by law. This must be done until said reserve account shows a credit balance equal to 20 per cent of the outstanding capital stock of the land bank. When the reserve equals 20 per cent of the outstanding capital stock, but 5 per cent of the net earnings must be carried to reserve. Dividends can be paid to national farm-loan associations only after the above amount is set aside to reserve.

A national farm-loan association must carry to reserve 10 per cent of its net earnings until a credit balance equal to 20 per cent of its outstanding capital stock is shown. When the reserve reaches that amount it is necessary to carry only 2 per cent of its net earnings to this account. The above amount must be set aside to reserve before any dividends are paid by the association to its members.

The consolidated statement issued by the Federal Farm Loan Board as of December 31, 1920, discloses that the twelve Federal land banks have carried to reserve account \$958,473.

been stated, depend upon the rate of income, but rather upon their stability, safety, and convertibility at the will of the holder. An examination of the nature of the security underlying a Federal farm-loan bond reveals both stability and safety.¹ Land-mortgage bonds have long been recognized as a first-class security in European countries, and it is expected that, with proper encouragement, they will be so recognized in America. Congress realized the importance of removing any barriers that stood in the way of making available the accumulation of funds in national trust companies for investment in Federal farm-loan bonds, in that they are made lawful investments for all fiduciary and trust funds.² Those states whose laws did not permit of such investment by savings banks, trust companies, and insurance companies, have likewise, with a few exceptions, made such provisions as were necessary to make these funds available.

The full success of the farm-loan system rests upon its ability to market its bonds. It was not possible for the land banks to operate on their capital in a satisfactory manner, if bonds were to be issued and sold in small amounts. The continuous operation of the system could be assured only by the sale of bonds by the tens of millions and in anticipation of the loaning needs of the land banks for a future period.³ While the

¹ See chap. iii.

² The Federal Farm Loan Act, Section 27.

³ Though Federal Farm Loan bonds were sold in anticipation of the future loaning needs of the land banks for a long period, it was necessary to deliver the bonds sold as called for by the government. The land banks, of course, could not absorb the proceeds of the bonds immediately—that is, invest the proceeds in land mortgages and purchase bonds against them, for they could only do so in accordance with the regulations required. The Farm Loan Board, therefore, the issuer of the

security underlying farm-loan bonds could not be questioned, the Farm Loan Board realized that as yet they were unknown to the American investor. For this reason, principally, the board secured the co-operation of certain bond houses, "with large 'clienteles' of investors and an established reputation for dealing in conservative investments,"¹ who formed a syndicate for the purpose of assisting the farm-loan board in introducing the Federal farm-loan bonds on the American bond market. This arrangement was at the time eminently satisfactory.

The amount of interest the land banks are obliged to pay on their bonds determines the interest rate to be charged to the farmers who borrow. Since the primary purpose of the Farm Loan Act was to provide capital for agricultural development at the lowest possible rate, it was of course the duty of the Farm Loan Board, under the above arrangement, to offer the bonds at the lowest rate consistent with their ability to command a market. The board concluded that it was possible to market a $4\frac{1}{2}$ -per-cent bond at such a premium as would net the purchaser $4\frac{1}{10}$ per cent, the rate to the borrower being fixed at 5 per cent. Thus a *spread* or *margin* of a little over $\frac{1}{2}$ of one per cent was realized by the banks to cover expense of operation.² The ready sale of these bonds at this

land banks, purchased United States government bonds or certificates of indebtedness, which were temporarily used as security for such bonds as were called for, substituting first mortgages for these bonds as loans were made. This expedient, which is authorized by the Farm Loan Act, not only enabled the land banks to supply farm-loan bonds as called for, but made available to the land banks at call large amounts of funds for loaning purposes.

¹ First Annual Report of the Federal Farm Loan Board, p. 17.

² This *spread* or *margin* did not, of course, meet the expense of the

rate bears ample testimony to the desirability of Federal farm-loan bonds as an investment under the conditions then prevailing.

The success of the first bond sale, however, did not foreshadow equal success in the future. The United States was well into the European war and the problems of government financing were assuming large proportions. While there had been no difficulty in marketing nearly \$30,000,000 in farm-loan bonds between the first¹ and second² Liberty-loan issues, at a substantial premium, during the succeeding six months the government had absorbed nearly \$6,000,000,000 in capital. Anticipating this situation at the time the United States entered the European war, the Farm Loan Board had prepared an amendment authorizing the Secretary of the Treasury to buy farm-loan bonds from time to time at par during each of the following two years to an amount not exceeding \$100,000,000 in each year, to be subject to resale and redemption at the same price. It was thought that some expedient of the kind might be necessary, inasmuch as the offer-

land banks during the first year. As a consequence, there was an impairment of the banks' capital. The total impairment of capital of the twelve banks on April 30, 1918, which was practically at the close of the first year, was \$411,954. In the succeeding quarter it was reduced by \$26,834 to \$385,120, and in the four months ending November 30 it was reduced by \$246,594 to \$138,526.—Second Annual Report of the Federal Farm Loan Board, p. 16. See footnote, p. 32.

The above does not take into consideration the salaries and expenses of the Farm Loan Board, which are paid by congressional appropriation as provided by Section 3 of the Farm Loan Act. The Farm Loan Board, however, in its Third Annual Report (p. 18), recommended an amendment to the Farm Loan Act authorizing the payment of salaries and expenses of the board by assessment upon the land banks instead of by direct appropriation of public funds. This amendment would place the system entirely on a self-supporting basis.

¹ May, 1917.

² October, 1917.

ing of government bonds might temporarily destroy the market for Federal farm-loan bonds. This amendment was, however, not presented to Congress until December, 1917. The syndicate of bond houses had not, as had been anticipated, renewed their contract on December 1, 1917, owing, so they said, to the disturbed financial conditions. This situation was very embarrassing to the land banks, inasmuch as they had, on that date, commitments actually exceeding \$100,000,000 which they were legally bound to meet (loans which the land banks had agreed to close). Had it been possible for the Farm Loan Board and the land banks to have done so, it would have been the part of wisdom to have established a bond-selling agency of their own, but the system was in no way organized to establish such an agency and conduct a bond sale of such magnitude without several months' preparation. In view of this situation, Congress passed the amendment in the form prepared by the Farm Loan Board, and it was approved January 18, 1918.¹

¹ This amendment authorized the Secretary of the Treasury to purchase from any Federal land bank, at par and accrued interest, farm-loan bonds issued by that bank, such purchase not to exceed in the aggregate \$100,000,000 in each of the fiscal years ending June 30, 1918, and June 30, 1919. It was further provided that any bonds so purchased might at any time be repurchased by the issuing bank at par and accrued interest for the purpose of redemption or resale, and that any bonds held by the Treasury one year after the termination of the pending war should be redeemed or repurchased upon thirty days' notice from the Secretary of the Treasury. Under authority of this amendment, there were sold to the Treasury farm-loan bonds to the amount of \$149,775,000, of which about \$135,000,000 were held by it on September 30, 1919.

This amendment also provides that "the temporary organization of any Federal land bank, as provided for in Section 4 of said Federal Farm Loan Act, shall be continued so long as any farm-loan bonds purchased from it under the provisions of this amendment shall be held by the Treasury. . . ."

The bonds issued from the time of organization up to April 30, 1918, including those purchased by the Treasury under the above amendment, bore interest at the rate of $4\frac{1}{2}$ per cent. The Farm Loan Board, with a view to relieving the Treasury of the United States of the necessity of buying farm-loan bonds, and re-establishing them as a security to command the confidence of the investing public, decided on a bond sale as soon as possible after the 1st of May, 1918. The subscription period of the third Liberty loan extended to May 4, and it was known that another offering was to be made in the early fall. This, then, gave the maximum period of approximately four months within which to conduct a sale. In view of the existing conditions, the board was of the opinion that a $4\frac{1}{2}$ -per-cent bond was unsaleable and therefore fixed the rate at 5 per cent, and the rate to the farmers who borrow was advanced to $5\frac{1}{2}$ per cent. The selling commenced on May 20 and closed on June 5, 1918. The sales within these sixteen days amounted to \$56,000,000. This was enough to take care of the loaning requirements of the banks up to October 1, 1918.

The readiness with which the bonds were absorbed emphasized once more their desirability as an investment. No further offerings were made until June, in the following year. After the funds realized from the second bond sale had been exhausted, in deference to the wishes of the Treasury authorities, bonds were sold to the Treasury until after the conclusion of the Victory Loan campaign. Farm-loan bonds during the fall of 1918 and the spring of 1919 were quoted

at a substantial premium. This was true not only of the 5's of the second issue, but of the 4½'s of the first. In view of these conditions, the rate of interest on the bonds offered during June, 1919, was fixed at 4½ per cent. At this time all of the land banks had not overcome the impairment of their capital. The rate, therefore, to the farmer-borrowers was not reduced, but remained at 5 per cent.¹ Within ten days the entire issue—\$54,000,000—was sold, and this, it was estimated, would care for the needs of the banks up to December, 1919. The services of the syndicate of bond houses were enlisted in this sale also under arrangements similar to those agreed on during the first and second bond sales.

This method of selling bonds, however, was not wholly satisfactory. It is evident that if the land banks had been free to choose their own times and methods, bond sales could have been made under more advantageous conditions, but it must be remembered that during this entire period the United

¹ On the present volume of loans the banks are realizing from borrowers a rate about nine tenths of 1 per cent higher than the rate which they are paying on their bonds. On such loans as represent their capital, against which no bonds have been issued, they are realizing 5½ per cent. The gross annual profit on interest account, therefore, approximates at this time \$3,500,000. At the beginning of the year it was materially less, but it grows, and it must continue to grow, with each succeeding month that shows an increase in the volume of loans. From this profit must be deducted all expenses in excess of the aggregate of fees charged to borrowers.

The consolidated statement of condition of the twelve Federal land banks as of November 30, 1918, showed an excess of expenses and interest charges from organization to that date of \$138,526. (See footnote 2, p. 28.) The similar statement of November 30, 1919, shows an excess of earnings over expenses and interest charges of \$1,461,440.88. It is apparent, therefore, that the net earnings of the twelve banks were \$1,599,966.88.—Third Annual Report of the Federal Farm Loan Board, p. 10.

States was involved in war, and it was necessary to subordinate every interest to the exigencies of the Federal Treasury. Therefore, it appeared to be the part of wisdom to centralize the efforts of the land banks in conducting bond sales, and enlist the co-operation of certain large and well-known bond houses to insure their success. The Farm Loan Board, however, did not look with favor on such an arrangement as a permanent one. "It is our belief," the board's first annual report states, "that, in harmony with the other co-operative features of the Act, the sale of bonds directly by the banks to the investors, should be stimulated in every way possible." The board stated further that while it was not as yet prepared to make recommendation, it felt that the "process of issuing bonds would be very much expedited and simplified if all the loans of all the banks were assembled and bonds issued against them by a single bank, so that all farm-loan bonds might be absolutely identical in every particular except denomination."

After the sale of June, 1919, it was evident that farm-loan bonds were readily marketable under ordinary conditions. Their rating on the bond market was exceptionally good, reflecting the confidence and approval of the American investor. These conditions were favorable to the working out of some arrangement by the land banks and the farm-loan board to dispose of bonds without assistance from the outside.

While plans along these lines were being developed, the long-threatened suit to contest the constitutionality of the Farm Loan Act was instituted. This suit was begun in August, 1919, in the form of an equity

proceeding in the United States District Court for the western district of Missouri. The case was heard October 30 and 31, the complaint being by order of the court dismissed, and the validity of the Farm Loan Act sustained. An appeal was immediately taken to the Supreme Court of the United States, where the case was heard on January 6, 1920. On April 28, the Supreme Court ordered a reargument of the case, which was heard on October 14 and 15, 1920. The court rendered its decision on February 28, 1921, upholding the constitutionality of the Federal Farm Loan Act in its entirety. During the litigation it was, of course, not possible to conduct a successful bond sale. The validity of the Act creating farm-loan bonds was being contested in court and, regardless of the confidence that might be expressed as to the outcome of the pending suit, the average investor, as a matter of ordinary prudence, would await the decision of the court. For this reason no bonds were offered while the litigation was pending.

While the funds realized from the bond sale of June, 1919, were held to be sufficient to care for the needs of the banks up to December, 1919, as a matter of fact the banks, with one or two exceptions, were supplied with loanable funds until about February 1, 1920. The banks, in the course of operation, had accumulated a large volume of approved applications, though on February 4 they had ceased to receive applications, except subject to closing after the Supreme Court had rendered its decision. Anticipating an early decision, the banks made use of their credit

through commercial banks to take care of the most pressing applications. The delay in rendering a decision, occasioned by the order for reargument, created an emergency whereby it became necessary for Congress to extend the provisions of the Act of January 18, 1918, to care for loans approved before March 1, 1920.¹

An impartial examination discloses the fact that the stabilizing influence effected by temporary government support through the purchase of farm-loan bonds was essential at the time to the continuous operation of the land banks.² But conditions have changed. Now that the validity of the Federal Farm Loan Act can no longer be assailed, the financing of the farm-loan system becomes a problem of marketing, *at the most favorable terms*, an unexcelled security. It is entirely possible that at times general financial conditions may affect the bond market adversely and necessitate the sale of Federal farm-loan bonds on terms less favorable than under ordinary circumstances. But the establishment of bond-selling machinery would tend to create an even demand and to a large extent nullify the effect of adverse economic conditions in the United States. This machinery

¹ The total amount of farm-loan bonds purchased by the Secretary of the Treasury was by this extension increased to about \$175,000,000.

² The land banks have received deposits from the Secretary of the Treasury, as contemplated in Section 32 of the Farm Loan Act. While this provision of the Farm Loan Act has been criticized as being a special privilege, as a matter of fact similar deposits are made in national banks. In either case the Secretary of the Treasury is authorized to use his discretion in making such deposits and satisfactory security must be given. The Farm Loan Act provides that these deposits must not exceed \$6,000,000 in the aggregate at any one time and that the interest rate charged thereon by the Treasury must not exceed the interest charged for other government deposits.

might well take the form of a subsidiary fiscal agency, within the farm-loan system, organized to centralize the efforts of the land banks in disposing of Federal farm-loan bonds, not only within our own country, but in the markets of the world.

III

FEDERAL FARM-LOAN BONDS

A FEDERAL farm-loan bond is a debenture. A mortgage bond and debenture are, of course, essentially the same, but there is an important distinction that should be borne in mind. A mortgage bond is secured by certain specified and designated mortgages, while a debenture is secured not by specific mortgages, but by the general assets of the institution issuing the debenture. Federal farm-loan bonds come within the definition of a debenture, inasmuch as the Farm Loan Act specifically provides that the assets of all of the land banks constitute security for all bonds issued by them.¹ This feature of the Act makes possible the sale of bonds (debentures) as has been described in Chapter II. As we have seen, the land banks estimate what their needs will be for a given period and a bond sale is conducted based on this estimate. In other words, bonds are issued and sold in advance of making loans, in anticipation of the loaning requirements of the land banks for a given period. Had the Farm Loan Act restricted the land banks to the issuance of mortgage bonds in accordance with the usual practice, the operation of converting mortgages into bonds and disposing of the bonds

¹ The Federal Farm Loan Act, Section 21.

would have been slow and unsatisfactory. The banks would first have had to make the loans, place the mortgages in trust as a special security for the bonds issued, and then offer the bonds on the market. While in practice the mortgage bond and the debenture serve the same purpose, it is apparent that in a system caring for such a large volume of business as does the Federal farm-loan system, the debenture form, as usually understood, is not only desirable, but essential.¹

The debenture bond has not played an important part in the history of England and America, but the experience of these countries with this method of financing has been of value. While the issuance of land-mortgage bonds and debentures is usually associated with European land-mortgage banks, the United States is not entirely unacquainted with the issuance of debentures, based on farm mortgages. During the late 'eighties and early 'nineties a number of institutions—about one hundred and sixty—in the New England and North Atlantic states, undertook to sell debentures of this nature. The disastrous ending of these companies is still fresh in memory, while those established in European countries have developed into large and successful institutions. The general nature of the

¹ It is also contended that the Federal farm-loan bonds are in reality collateral trust bonds in that they are obligations of the land banks, secured by the deposit, in trust, as collateral to the same, *notes* (as distinguished from first mortgages) of various farmers, which are in turn secured by mortgages on real estate. (Opinion of M. C. Elliott, counsel, Federal Farm Loan Board, rendered June 10, 1918.) This distinction as to form of security is in its nature a legal one, and refers to a ruling bearing on the question of whether or not notes secured by farm-loan bonds can be discounted by national banks. The nature of the security underlying a Federal farm-loan bond, or, as it is more properly called, land-bank bond, is discussed in this chapter.

security was the same in that it consisted of mortgages on real estate. This being the case, inquiry must be made into the methods of operation. The underlying principles of the bond-issuing institutions of Europe were entirely lacking in these early debenture companies. They were not subject to inspection or supervision under Federal law, whereas European institutions were safeguarded by a careful system of state supervision. No standard governing mortgage securities existed, and therefore it was possible to use inflated estimates in land values. There was no protection fund in the form of stock subscriptions and reserve, or any restrictions as to the ratio between the bonds issued and their capital and surplus. These provisions are fundamental in European institutions. The greatest undermining influence, however, in connection with the operations of these early debenture companies was the practice of substituting inferior mortgages for collateral securities withdrawn. This, coupled with the fact that they operated without restriction or supervision from any source, brought about their speedy collapse. The early history of American banks and insurance companies is a parallel and was equally discouraging. It was not until the banks and insurance companies were placed under government regulation and inspection that a sound system of banking and insurance was established.

The underlying principles of co-operative rural credit upon which European systems have been built were recognized by the authors of the Federal Farm Loan Act. They realized that a successful system must be launched under the auspices of the govern-

ment itself and that the government must in a measure maintain supervision over its operations; that the distinctive features of European long-term mortgage credit—that is, the issue of land-mortgage bonds and the methods of amortization payments—should be incorporated in any American system of land-mortgage banking; and that the system must be so built as to command the confidence of the investing public in order that it might have at its disposal at all times ample funds to care for its needs. This confidence is assured by so safeguarding the land banks as to prevent a repetition of the conditions which led to failure in the early debenture companies. The utmost care is taken in granting of credit (to be described in Chapters IV and V), and this leads to the selection of conservative mortgage securities and renders less likely the use of inflated estimates in land values. In addition thereto, the Farm Loan Act provides for capital stock, and a reserve, and places restriction upon the issuance of bonds, in accordance with the approved practice of similar institutions in Europe. The practice of the debenture companies of improperly substituting mortgages held as collateral to their bonds is guarded against in the Farm Loan Act by a provision bearing on the duties of the farm-loan registrar.¹

Notwithstanding the early American experience of debenture companies, the advantages of the mortgage bond or debenture from an investor's point of view was

¹ The farm-loan registrar is charged with the duty, under bond, of seeing that Federal farm-loan bonds outstanding do not exceed the amount of the collateral security pledged. Such security may be either first mortgages, United States government bonds, or cash.—The Federal Farm Loan Act, Section 19.

apparent. Under the prevailing practice of the farm-mortgage loan business of the United States—where the note and mortgage is sold directly to the investor—the investor is subjected to a great deal of trouble and inconvenience. In the first place, he must either have personal knowledge of all of the circumstances affecting the security or he must rely for such information upon a third party. If he relies on his personal knowledge he must of course assure himself as to the validity of the title to the land, give attention to the upkeep of taxes and insurance, and personally make collection of interest and principal when due. In the event that a third party, such as a mortgage company or mortgage bank, furnishes information and performs this service, the investor must, of course, ascertain for himself the reliability of the mortgage company or bank, which it is often difficult for him to do. The investor, too, may not find it easy to secure a mortgage in just the amount which he desires to invest or for the period of time most suitable to him.

There are no such disadvantages if the farmer's security is converted into Federal farm-loan bonds. These bonds are standardized as to form and amount. They are issued in convenient denominations for a suitable period of time, and with convenient and reliable means for the collection of principal and interest. Federal farm-loan bonds run for a period of twenty years, but are redeemable five years from the date of their issue. The five-year redemption provision corresponds to the minimum period for which a Federal farm loan can be made. Bonds are issued in denominations of \$40, \$100, \$500, and \$1,000. They

are issued in registered and coupon forms, interest being payable semiannually at the bank of issue, both principal and interest being payable in gold or lawful money. Interest coupons are payable at any Federal land bank or Federal Reserve bank in the United States. (See sample form of bond on following page.)

The security underlying Federal farm-loan bonds consists in the first instance, of mortgages on farm lands, carefully selected according to reliable and uniform standards. These mortgages, pledged as collateral, are secured by the personal undertaking of the borrower; by the security of the mortgaged land, at least double in value to the amount of the loan; by the capital, reserves, and earnings of the local association indorsing the loans; and by the liability of the members of the indorsing association to double the amount of the stock held by them. In addition to the security of all of the mortgages issued by all of the land banks, at least equal in amount to the outstanding bonds, every farm-loan bond is secured by the capital, reserves, and earnings of the land bank which issued them and by the capital, reserves, and earnings of the eleven other land banks. Manifestly these are adequate safeguards.

The outstanding feature of this new system of land-mortgage banking is standardization, not only of the credit granted (to be further discussed in the chapters on loans), but also of the form of security placed on the market. Through standardization, coupled with satisfactory assurances that those standards will be maintained, it has been possible to command a market for Federal farm-load bonds in such volume as to



provide funds for the continuous operation of the land banks.

Of equal importance to the investor and the farmer-borrower is the provision in the Federal Farm Loan Act by which all farm-loan bonds are exempted from Federal, state, municipal, and local taxation.¹ This exemption makes these bonds especially attractive to investors and assists in reducing materially the rate of interest charged the borrowers. While there was considerable opposition to this feature of the Farm Loan Act, the commission that investigated rural credit systems in European countries, and contemporary writers as well,² were of the opinion that it was essential to the establishment of a successful national system of rural credits in this country. The United States Commission, in its report to Congress,³ stated clearly and forcibly its position on the subject of tax exemption; in fact, its statement can be said to be a summary of the principal arguments made by the advocates of this feature of the Farm Loan Act. The commission's statement follows:

Finally, the commission has recognized that, in order that the farmer shall get the benefit of the lowest interest rates, these land-bank bonds, as well as the mortgages or deeds of trust held by the banks as security for the same, must be exempted from taxation. It will be conceded that the tax upon a mortgage ultimately comes out of the borrower, either directly or in the shape of an increased interest rate on the loan. The proposed securities are based on land, and land is the one asset which is always taxed and which

¹ The Federal Farm Loan Act, Section 26.

² Senate Document 380, Sixty-third Congress. House Document 494, Sixty-fourth Congress. Senate Document 630, Sixty-fourth Congress. Morgan, *Land Credits*, chap. xii. Herrick, *Rural Credits*, chap. xix, p. 224.

³ Senate Document 380, Sixty-third Congress.

cannot evade taxation. The farmer must pay his proportion of governmental charges, because his land is always there and the assessor can always reach it. The Federal government has no control over this tax on land and does not attempt to control it. But it is recognized that a tax on the mortgage created by the farmer upon this land, or a tax upon the land-bank bond issued by the bank on the security of such mortgage, must ultimately be paid by the farmer in the shape of increased interest charges. As an essential to the carrying out of any reform which will meet the farmer's requirements, this species of double taxation must be done away with. Consequently the bill provides for the exemption from taxation not only of the capital stock of the banks to be so organized, but also of all the mortgages and deeds of trust held by the bank and of all the land-bank bonds issued by the bank against such mortgages and deeds of trust. In exempting the capital of the bank from taxation the bill follows the Federal Reserve Act, on the theory that the same privilege in this respect should be extended to agricultural banks as to commercial banks. And in exempting from taxation the mortgages and deeds of trust, and the land-bank bonds issued against the same, the commission has recognized that such a tax is simply an additional charge against the farmer who had already paid the direct tax on his land. It will be impossible to secure money for the farmer on the best terms unless and until such an exemption goes into effect.

The Supreme Court of the United States, in the case of *Smith vs. The Kansas City Title and Trust Company*,¹ has ruled on the validity of the tax-exemption feature of the Farm Loan Act. Any discussion thereon must of course deal with it as a practical or economic question and not as a legal question. The provision for exempting Federal farm-loan bonds from taxation constituted the crux of the opposition to the Federal farm-loan system. The tax-free bonds issued by the land banks, it was contended, were a great menace to the country. This assertion was made despite the fact that approximately \$16,-

¹———U. S. ———; 41 Sup. Ct. Rep. 243. (See also Appendix D.)

ooo,ooo,ooo in tax-free securities in the form of state, county, municipal, drainage, irrigation, and other bonds, had been issued and absorbed by the investing public. The menace of tax-free securities apparently did not become evident until they appeared in the form of Federal farm-loan bonds, which, at this writing (February, 1921), constitute less than 7 per cent of the total tax-exempt bonds in this country.

In the sale of their bonds, the land banks are prohibited from competition with railroad bonds and industrials by the high rate of interest which such bonds bear. They do not compete with other mortgages because in order to secure funds to meet their requirements, it was necessary to place the farmers' security on the market in the form of debentures. The competition that the land banks have to meet in the sale of their bonds, therefore, is with government, municipal, and other bonds, which are tax free. Congress conferred the tax-exemption privilege upon the land banks so that they could compete with tax-free bonds on an even basis.

Conceding, for the sake of argument, that this tax-exemption privilege is a subsidy to American farmers, is it to be condemned on that account? Are subsidies an innovation in this country? For reply we have but to turn to history. "Infant" industries have flourished in this country under a protective tariff, transcontinental railroads have become a reality through subsidies in the form of land grants, and our merchant marine has been fostered by subventions in various forms. Until recently, our agricultural industry has developed despite inadequate

financing. This was possible, as we have seen, largely because of the abundance of cheap lands. However, with the passing of our vast public domain came the need for more capital. In order that capital be made available in such form and under such conditions as to meet the needs of agriculture, Congress established the Federal farm-loan system and extended to it the privilege of tax exemption. The question of tax exemption is one involving the whole theory of taxation and will undoubtedly receive due attention from writers on the subject. It is sufficient to state here that in the opinion of those who believe that the Federal farm-loan system has a place in American economic life, the tax-exemption feature, *under present conditions*, constitutes the very life blood of the system and its continued existence depends thereon.

The statement is often made that a land-mortgage bond is the best possible security. If European experience, and more particularly that of Germany, is a criterion, this statement is undoubtedly true, for it is there shown that the land-mortgage bond is "safer than a government bond." Land debentures of the Silesian *Landschaft* during the Napoleonic wars fell to 84, then to 70 and 50, while those of the Prussian government sank to 20. Again, during the revolution of 1848, which seriously affected all values, the land debentures of the *Landschaften* of Silesia and Pomerania were quoted at 93, of West Prussia at 83, and of East Prussia at 96. At the same time, Prussian government bonds were selling at 69, the stock of the Bank of Prussia at 63, and the stock of the government railroads fell from 90 to 30. In 1850, while the 3.5

per cent government bonds of Prussia were at 86.5, those of the Silesian *Landschaft* were quoted at 93.75, those of the *Landschaft* of Posen at 102, and of the *Landschaft* of Mecklenburg at 103.¹ The writer was able to secure, through the United States Department of State, quotations on both government and land-mortgage bonds in Germany, from June 30, 1914, to November 29, 1919. These quotations are of such interest that they are reproduced on the following page.

These statistics disclose the stability of land-mortgage bonds and their desirability as a long-term investment. While, of course, the period of operation of the land banks has been too brief, and not only international conditions, but our domestic affairs, as well, have been too uncertain to permit of any accurate deductions being made, it is safe to predict that Federal farm-loan bonds will display stability equal to that of any of the rural credit-bonds of European countries.

¹ Herrick, *Rural Credits*, pp. 81 and 82.

THE FEDERAL FARM-LOAN

PRICE OF GERMAN STANDARD BONDS

	June 30 1914	Dec. 31 1918	June 30 1919	Nov. 29 1919
Imperial 4%.....	99.00	79.00	69.00	65.70
Imperial 3½%.....	86.20	66.00	63.00	61.70
Imperial 3%.....	76.80	60.00	60.00	63.60
Prussian Consols 4%.....	99.00	83.00	74.00	65.00
Prussian Consols 3½%.....	86.20	68.00	63.00	57.50
Prussian Consols 3%.....	76.90	62.00	60.00	55.75
Kur u Neumark Landschaft 4%...	96.25	.....	101.00	93.00
Kur u Neumark Landschaft 3½%...	85.00	.....	96.00	.....
East Prussische Landschaft 4%...	93.25	.....	94.00	85.00
East Prussische Landschaft 3½%...	83.00	.....	79.00	74.75
East Prussische Landschaft 3%...	76.00	.....	74.00	74.75
Posen Landschaft 4%.....	99.80	.....	100.00	.....
Posen Landschaft 3½%.....	84.00	.....	92.00	69.00
Posen Landschaft 3%.....	76.00	.....	80.00	.....
Schleswig-Holstn. Landsch. 4%...	93.20	.....	111.00	101.00
Schleswig-Holstn. Landsch. 3½%...	83.00	.....	103.00	90.25
Schleswig-Holstn. Landsch. 3%...	75.00	.....	95.00	.....
Westphalian Landschaft 4%.....	94.50	.....	109.00	102.25
Westphalian Landschaft 3½%...	85.00	.....	95.00	.....
Westphalian Landschaft 3%.....	75.00	.....	85.00	.....
Pomeranian Landschaft 4%.....	95.25	.....	105.00	97.00

PRICE OF FEDERAL FARM LOAN BONDS¹

	Nov. 1 1917	May 1 1918	Nov. 1 1918	May 12 1919	Nov. 1 1919	May 1 1920	Oct. 26 1920
Federal farm loan 4½%, due 1937...	101	100	Sold on 4% basis at 101½	100½	100-101	92-96	90 bid. None offered
Federal farm loan 5%, due 1938....	...	...	Sold on 3.85% basis at 104½	103½-104	102-103	99-101	97-97½
Federal farm loan 4½%, due 1939...	...	...	.....	.....	100½-101	92-96	90-91
Federal farm loan 4½%, due 1938...	Not shown, for reason that issue all sold to banks.						

¹ The above table is presented through the courtesy of the National City Bank of New York.

IV

FEDERAL FARM LOANS

THE new plan of granting farm loans, the plan which received definite national recognition in the Federal Farm Loan Act, gives equal consideration to the problems and needs of the farmer and of the investor. In this respect it was somewhat revolutionary, for previously farm loans had been made solely from the investor's standpoint, and the wants of the farmer had been given little or no consideration. A true farm loan is one that is to be repaid from the earnings of the land. Nevertheless, farm loans, so-called, have been made in the United States with no thought of such redemption. They have run for periods of from three to five years, although in most cases it was manifestly impossible for the farmer-borrower to repay his loan from the earnings of his land within so short a time. The terms upon which farm loans have been made have worked as great a hardship as have the unnecessarily high interest rates charged American farmers. Institutions and individuals who have had money to lend have not seemed to realize that the financial needs of farming are different from those of other industries, and must be differently met, if farming is to continue to develop properly and the country at large to prosper. To accomplish the pur-

pose of the Federal Farm Loan Act it has been necessary to disregard, *in a measure*, established precedents and forms in the making of farm loans, and to set up new standards. These new standards, however, are not experiments, for while they are new in this country they have been established in many foreign countries for over a century, and are the result of years of experience in land-mortgage banking.

The distinctive features of the new system can be summed up conveniently, as follows: long term of loan, uniform low rate of interest, and the amortization plan of repayment of loan. In considering the term of the loans it is to be remembered that we are dealing with loans which the farmer employs in the acquisition and improvement of his land and the purchase of equipment, commonly called *fixed capital*, and not with *circulating capital*, which is used for short periods in growing and harvesting and marketing crops. The problem of supplying circulating capital is essentially different from that of providing fixed or permanent capital. The former is not germane to a discussion of the Federal farm-loan system, for that system was established to provide a channel through which the farmers of the country could market their long-term securities, and does not provide for their short-time or personal needs.

In the establishment or development of a business enterprise, fixed capital is provided for by the sale of bonds or stock on a basis which will enable the business itself to retire the bonds or make the stock a profitable investment from its own earnings. In addition, loans are made by commercial banks to

business institutions in accordance with their ability to repay. Because of rapid turnover, the demands of the merchant or manufacturer can be satisfied if these loans run from three months to three years. With the establishment of the Federal Reserve system the commercial world has erected for itself a magnificent financial structure, giving elasticity to a hitherto rigid system of banking, and doing everything possible toward solving its financial problems.

The financial needs of farming are different from those of any other industry. The farmer is unable, in any but exceptional cases, to market bonds of his own upon the security of his farm. His fixed capital forms a larger proportion of his investment than does the business man's. His turnover is not so rapid. He buys live stock, machinery, buildings, and land, and it is many years before he can realize upon them profitably. If he had to repay a loan in three or five years, the farmer would naturally hesitate before building a barn, silo, or hog house, before constructing a fence or purchasing dairy stock. Such investments may be precisely the ones that would make his farm a more productive unit, but the earnings of the farm in so short a period of time could not take care of the necessary loan. The farmer would, of course, renew his loan when it fell due, but he would run grave risk of the money market being unfavorable at the time, and even if he did renew it there would be additional costs, such as commissions, recording charges, abstract fees, registration taxes, etc., incident to such renewal. The farmer who desires to equip his farm with costly but necessary agencies of production must have credit

for a comparatively long period of time, with the privilege of gradually extinguishing the principal as the interest is paid, and with the further right of extinguishing the entire principal whenever he desires to do so.

The Farm Loan Act provides that the rate of interest shall not exceed the rate on farm-loan bonds by more than 1 per cent, and in no event be in excess of 6 per cent, exclusive of amortization payments. Statistics of the United States Department of Agriculture show that the average rate of interest and commissions on farm-mortgage loans exceeds 6 per cent in thirty-six states and rises as high as 10 per cent in the states of Montana, Wyoming, and New Mexico.¹ The low rate feature of a Federal farm loan is obviously a source of great saving to the farmers in most of the states of the United States.

The interest rate charged to borrowers has been made uniform throughout the United States. This was not specifically provided for in the Farm Loan Act, but was necessitated by the bond situation. It was obviously impossible for a land bank operating on the Atlantic seaboard to market its low-rate bonds when the bond buyer at the same time could secure a similar bond, bearing from 2 to 3 per cent higher rate, in the Western states. The result of variation in rate would be that some of the land banks would be over-financed, while others would not be able to sell their bonds except at a prohibitive discount. Therefore, in order to insure the financing of *all* the land banks, a

¹ The United States Department of Agriculture, Bulletin No. 384, p. 2.

standard bond has been issued—standardized not only as regards maturities and the security underlying them, but also as regards the interest rate.

Heretofore the interest rate on land mortgages has varied from district to district.¹ Two reasons for this at once occur to our minds. One is variation in the supply of capital and the other is the variation in risk. It is apparent that in localities where there is a large demand for funds during certain seasons of the year and a small demand during other seasons, a comparatively high rate must be charged in accordance with the seasonal requirements. There are economists who contend that it is wrong arbitrarily to level the interest rate throughout the entire United States. They argue that interest rates are governed by local conditions somewhat as freight rates are governed by water competition. That this was true under the old system of mortgage banking, where every loan made was individually handled, is unquestioned. The cost of making a loan—inspecting the property and negotiating a loan—varied with the accessibility of the property and whether the loan was made with local money or with outside capital. The costs of inspecting necessarily vary even under the Federal farm-loan system, but because this system has graded or standardized all loans and made more systematic the work of the appraiser, they vary less than under the old system and have been considerably reduced. These graded loans, when made, become security for bonds

¹ The average rate throughout the United States varied from as low as 5.2 per cent to as high as 10.1 per cent. United States Department of Agriculture, Bulletin No. 384, pp. 4-6.

issued. The investors purchasing such bonds, of course, know that the security conforms to certain standards. The cost of negotiating the farmers' loans in the form of bonds is no greater for one locality than for another, if they are sold through one channel, such as the Federal farm-loan system.

As has been noted, variation in risk leads to variation in interest rates. It is contended that low rates can be commanded only in those districts in which investors have complete confidence. The proponents of a uniform rate of interest, however, contend that money is worth no more in Minnesota than it is in Illinois, provided the risk remains the same. A \$1,000 loan on a farm worth \$2,500 in northeastern Minnesota should be just as good as a \$10,000 loan on a farm worth \$25,000 in Illinois, *provided the same standard of valuation is used, such as the earning power of each farm*. The ratio of security is the same. There is no experience table,¹ however, back of the northeastern Minnesota loan as there is back of the Illinois loan. But loans that are made throughout a large territory, such as the United States, based upon a certain percentage of the value of the land for agricultural purposes, so distribute the risk as to make it practically negligible.

While recognizing the need for cheaper money for agriculture, the authors of the Federal Farm Loan Act realized that of equal importance were the conditions and terms upon which loans were to be made. The Farm Loan Act acknowledges the truth that a

¹ Reference is had to the history of making farm-mortgage loans in a given territory—that is, the average loan made on a given tract over a period of years taking into consideration the legitimate increase in land values, percentage of losses, and the like.

farmer who makes his living solely from his farm cannot pay the purchase price of the land or the cost of the permanent improvements except from the net earnings of his industry—that is, the surplus after he has paid taxes, the cost of upkeep and necessary family expenses. Accordingly, it provides for loans running from five to forty years.¹ This makes the life of the loan, or the length of time which the loan is to run, wholly optional with the borrower.

All Federal farm loans are made on the amortization plan. The term amortization is as yet unfamiliar to the average American. In time it will become a part of everyone's vocabulary, for it is the only basis upon which a farm loan should be made if the welfare of the farmer is to be taken into consideration. Amortization is a term applied to the process of reducing indebtedness (throughout a period of years) by installment payments of a fixed amount, which include interest and a part of the principal. For the purpose of illustration, let us assume that a farmer borrows \$1,000 through the farm-loan system, at 5½-per-cent interest, and on a "1-per-cent amortization."² He pays \$65 a year in semiannual payments

¹ While Federal farm loans cannot be paid off until after five years from the date they are made, except at the option of the land bank, payments in any multiple of the amortization installments or in full can be made on any interest-paying date without any bonus or commission. After the five-year period the farmer-borrower has an absolute right to pay off his loan on any interest period. Consequently, if interest rates should fall, the farmer could pay off his mortgage and borrow again on more advantageous terms. On the other hand, if interest rates should rise, the land bank could not make the farmer borrower pay the increased rate, for the agreed rate holds good until the mortgage falls due, and in the meantime the amortization payments extinguish the loan.

² The amount paid on principal bears a direct relationship to the period of time for which an amortized loan is made. Thus, while

of \$32.50 each until the loan is discharged. That is, of course, $6\frac{1}{2}$ per cent per annum on the sum borrowed. We commonly say that he is paying $5\frac{1}{2}$ -per-cent interest and 1 per cent on the principal, and that on this "1-per-cent amortization" the loan will be extinguished within thirty-four and a half years. But the way it works out is this. His first payment is applied as follows: \$27.50 to the payment of interest and \$5 to reduction of the principal. The interest on the next payment is figured at $5\frac{1}{2}$ per cent on the reduced amount of principal of \$995 (because of his first payment on principal of \$5), and is applied as follows: \$27.36 on interest and \$5.14 on the principal. He continues making payments of \$32.50 each six months during the thirty-four and a half years, but the interest payment is constantly growing smaller and the payment on the principal is steadily growing larger, so that at the end of the period of thirty-four and a half years he will pay \$1.71 interest and \$30.79 on the principal. By means of these small payments his principal is reduced little by little so that at the end of thirty-four and a half years it is entirely paid up. If the farmer chooses to pay a larger amount on principal, which he is compelled to do in certain of the "specialized" farming districts, such as the fruit-growing sections of California, his loan will be retired within a shorter period.

The advantages of the long-term, amortized Federal farm loan are many. In the first place, the farmer

an annual payment on principal of 1 per cent of the original amount of a loan made on a $5\frac{1}{2}$ -per-cent interest basis retires it in thirty-four and a half years, a payment of 2 per cent will liquidate the same loan in twenty-four and a half years.

<div> <div>34½ YEAR TABLE</div> <div> <div>PRINCIPAL \$1,000. RATE 5½%</div> <div>COMPARATIVE COSTS OF \$1,000. - 34½ YEAR</div> </div> </div>									
YEAR DUE	SEMIANNUAL PAYMENTS		BALANCE UNPAID	STRAIGHT LOANS		AMORTIZATION LOANS		Savings in Cost of Amortization Plan (Due to Semi-Annual Paying of Interest)	
	INTEREST	PRINCIPAL		INTEREST RATE	TOTAL PAID	INTEREST RATE	TOTAL PAID	Due to Semi-Annual Paying of Interest	TOTAL
1 st Year	27.50	5.00	995.00	5½%	2,897.50	5½%	2,242.42	655.08	655.08
2 nd Year	27.38	5.14	989.86	6%	3,070.00	5½%	2,242.42	655.08	877.58
3 rd Year	27.22	5.28	984.58	7%	3,415.00	5½%	2,242.42	655.08	1,172.58
4 th Year	27.08	5.42	979.16						
5 th Year	26.93	5.57	973.59						
	26.77	5.73	967.86						
	26.62	5.88	961.98						
	26.45	6.05	955.93						
	26.29	6.21	949.72						
	26.12	6.38	943.34						
	*	*	*						
34 th Year	1.71	30.79	31.55						
	.87	31.55							

THE ABOVE TABLE DOES NOT TAKE INTO CONSIDERATION COST OF RENEWAL EVERY 3-5 YEARS.

(COMMISSIONS, RECORDING CHARGES, ABSTRACT FEES, REGISTRATION TAX, ETC.) INCIDENTAL TO A STRAIGHT LOAN. A FEDERAL FARM LOAN IS MADE FOR 34½ YEARS, REPAYABLE ON ANY INTEREST DATE AFTER 5 YEARS FROM DATE OF LOAN AND CONSEQUENTLY NOT SUBJECT TO ANY OF THESE CHARGES.

who secures such a loan is relieved of the dread of foreclosure, for if he keeps up his annual or semi-annual amortization payments the principal will never fall due. When the loan has run its full period it is paid. These payments are small and do not exceed the amount paid as interest in most of the states of the Union. Aside from stimulating thrift and encouraging systematic saving, long-term credit of this nature will enable the farmer to have on hand a greater surplus of funds. As a consequence, he will become a cash customer for the merchant and a depositor in the local bank. Any rural-credit system which enlarges farming operations, increases the production of the soil, or stimulates the agricultural industry, as does the Federal farm-loan system, adds to the value of the capital stock of every bank located in a farming section, increasing its dividends, surplus, and profits.

A Federal farm loan can be made only when it is secured by a first mortgage on farm land within the land-bank district in which the bank is located, and only to a "natural person," who is the owner or about to become the owner of *qualified farm land*. No loan can be made, however, unless such person is "at the time or shortly to become, engaged in the cultivation of the farm mortgaged."¹

The Farm Loan Board has defined an actual farmer as "one who conducts the farm and directs its entire

¹ Federal farm loans, therefore, cannot be made on rented farms, though a renter who is about to acquire title may secure a loan. The meaning of the term *qualified farm land* is necessarily indefinite. What lands are qualified as security for a Federal farm loan depends upon factors such as the soil conditions, market facilities, rainfall, and the like, which make up the value of the land for agricultural purposes.

operation, cultivating the same with his own hands or by means of hired labor. An owner, to borrow under the Farm Loan Act, must be responsible in every way, financially and otherwise, for the cultivation of his land. A loan cannot be made to a corporation, guardians, executors, administrators, or trustees. There is an exception in that a guardian may borrow if such guardian is father, mother, husband or wife, and has a joint interest in the property of the ward.¹ The guardian, in such case, must sign individually the note and mortgage and act as a member of the national farm-loan association.

As has already been stated, the purpose that the framers of the Farm Loan Act had primarily in view was the development of agriculture. In order that the loans made through the farm-loan system be directed toward this end, they specifically provided the purposes for which a loan may be made. These purposes are enumerated in Section 12, subdivision 4, of the Farm Loan Act, as amended, as follows:

Such loans may be made for the following purposes and for no other: (a) To provide for the purchase of land for agricultural uses. (b) To provide for the purchase of equipment, fertilizers, and live stock necessary for the proper and reasonable operation of the mortgaged farm; the term "equipment" to be defined by the Federal Farm Loan Board. (c) To provide buildings and for the improvement of farm lands; the term "improvement" to be defined by the Federal Farm Loan Board. (d) To liquidate indebtedness of the owner of the land mortgaged incurred for agricultural purposes, or incurred prior to the organization of the first

¹ This ruling of the Farm Loan Board has afforded relief in many instances where death intervened while the loan was in the process of closing; in fact, in a number of cases, under this ruling, the ward was able to retain the farm and continue its operation, which would not have been the case had the loan not been closed.

farm-loan association established in and for the county in which the land is situated.

The Farm Loan Board has ruled that under the term *equipment* may be included the improvements needed in the conduct of the farm to facilitate its operation, including teams, as well as machinery, tools, and the like. The term *improvement* has been defined to include anything in the form of a beneficial structure or any useful, permanent, physical change tending to increase the productive value of the farm; for example, clearing, tiling, draining, fencing, and building.

In determining what land is acceptable as security for a federal-farm loan, the Farm Loan Board has held that "it is not necessary that all the land included in the mortgage shall be under cultivation"; that "one of the purposes for which money may be borrowed is to prepare land for cultivation"; that "a reasonable amount of pasture land in connection with a farm is desirable"; and that "such pasture land may be appraised in such appraisal." The board has ruled further that "loans may be made on lands which are primarily agricultural lands, on which, however, there are leases carrying the right to remove oil, gas, or other minerals, provided that the extent to which such use may interfere with the use of the land for agricultural purposes be taken into consideration"; and that "the land bank require the borrower to include in his mortgage his rights under such lease"; and that "any proceeds therefrom shall be applied to the payment of the mortgage." Where lands under drainage projects are subject to a fixed annual charge the board has ruled that "this charge may be regarded

as of the same nature as a municipal or school-district tax, which does not prevent the making of a loan on such land, but must be taken into account in appraising its value."

Orchard lands and lands under irrigation or drainage projects have been subjects of special consideration by the Farm Loan Board. Orchard lands in many sections of the United States are highly developed and very productive. In some cases, however, these lands have no value for other agricultural purposes. The Farm Loan Board has taken the view that "the value consists of the trees and not of the land, and trees are not a 'permanent, insurable improvement' in that they are subject to utter destruction by either freezing or neglect." As a consequence, the board ruled that "where the lands have a basic agricultural value, such value shall be the basis for loans"; that "orchards shall not be regarded as permanent improvements, but shall be taken into consideration as enhancing the general value of the land and in determining its productive value." A consideration of the difficulties presented in making loans on irrigation and drainage projects necessitated employing an experienced engineer.

Considerable discussion took place during the early period of operation as to what constituted a farm for the purpose of making a loan under the farm-loan system. Applications were submitted for loans on lands which, in fact, were summer homes or suburban lots. This problem was solved by the Farm Loan Board by applying an economic test, as stated in the following rule:

A farm must be of sufficient area to yield at the hands of an ordinary capable farmer, putting it to the use to which it is generally adapted, and using average methods, an income sufficient to support the family of the applicant and discharge the interest and amortization payments.¹

While the period of operation of the farm-loan system is yet too brief to hazard a prediction as to the beneficial effects which will result from the provision of the Farm Loan Act specifying the purposes for which loans may be made, it is of interest to note that, from a detailed statement issued by the Farm Loan Board covering 83,826 loans aggregating \$251,426,600, 11 per cent of the amount loaned was used for the purchase of land mortgaged, and 2 per cent for the purchase of other land, making a total of 13 per cent for the purchase of land; 9 per cent for buildings and improvements; 2 per cent for implements and equipment; 3 per cent for the purchase of live stock; 59 per cent for the liquidation of existing mortgages; 9 per cent to pay other debts; and 5 per cent for the purchase of stock as required in the Act.² To insure against the use of the proceeds of Federal farm loans for other than productive purposes, the Farm Loan Act was amended in April, 1920, prohibiting the refunding of any mortgages unless the indebtedness was incurred for agricultural purposes.³ The far-reaching effect of this compulsory direction of money to productive channels will benefit not the farmer alone—its value to the country at large will in time manifest itself by higher standards of living.

¹ The use of the term *average* has reference to the methods of farming in a given locality and not to an area as large as a state or land-bank district.

² Second Annual Report of the Federal Farm Loan Board, p. 8

³ Public Document No. 182, Sixty-sixth Congress, Section 4.

V

FEDERAL FARM LOANS (CONTINUED)

THE success of any system of making farm loans depends upon the correct appraisalment of land values. Whatever safeguards there may be in the way of restrictions upon purposes for which loans may be made, limitations on the amount to be loaned to a certain percentage of the farm value, or the establishment of insurance funds against losses, of surpassing importance is the correct valuation of the security underlying the loans. If the work of appraising is carelessly or faultily performed, the result is soon reflected in an increasing number of foreclosures and overdue interest payments. This condition, unless corrected, leads to serious difficulties and eventual disaster.

The methods of ascertaining the value of farm property are perhaps as varied as there are men engaged in the work of farm appraisal. The *scientific* appraiser informs us that the value of the land plus the value of the buildings, when the buildings meet the "average adequate" needs of the farm, is the value of the farm; the personal element is important, though, under a national system of loaning such as the Federal farm-loan system, a matter of secondary consideration. We are told further that the value of the land and buildings is arrived at through another factor—*i.e.*, the net

earning power of the farm. Inasmuch as the earning power of the farm is affected by the personal element, we are again told that the personal element is equal to the difference between a liberal and a conservative loan and, in fact, determines which it shall be. The *practical* appraiser bases his valuations upon his *findings*, which can be interpreted to mean experience plus powers of observation. While a valuation placed upon a farm by either of these two appraisers may be sound, as a matter of fact the appraiser who combines scientific analysis with good judgment obtained through years of experience is much better equipped for his work than either of the other two mentioned.

In a discussion of the method of arriving at the value of farm property and the basis upon which loans are made, one must use as his text the plain mandate of the law itself. Section 12, subdivision 5, of the Act, provides that:

. . . no such loan shall exceed fifty per centum of the value of the land mortgaged and twenty per centum of the value of the permanent insured improvements thereon, said value to be ascertained by appraisal, as provided in section ten of this Act. In making said appraisal, the value of the land for agricultural purposes shall be the basis of appraisal and the earning power of said land shall be a principal factor.

In order that this provision of the law might be more clear to the loan committee of the national farm-loan association, the Farm Loan Board issued the following ruling:

The appraisement of a farm shall represent the best judgment of the loan committee as to the value of the land in question, the principal factor being the productivity of the land when used for agricultural purposes, but taking also into consideration the salability of the land and prevailing prices in the community.

Section 10, paragraph 3, last sentence, of the Act, provides that "no such loan shall be made by said bank unless said written report¹ is favorable."

The Farm Loan Act, then, specifically recognizes the three traditional factors of farm appraisal—the land, buildings (improvements), and, to some extent, the personal security. While the personal element is a factor of considerable importance in the making of a Federal farm loan, for obvious reasons it is not and never can be the controlling factor under this system of making land-mortgage loans. One of our captains of finance is reputed to have said, "I would rather loan a million dollars to a man of good character than upon the best security in the world." While this is a splendid tribute to the worth of good character and lends emphasis to the oft-repeated statement that good character has become a favorite ground with bankers to lend upon, it is manifestly impossible in a national system of land-mortgage banking to consider the personal element of equal importance with the real security. Through the Federal farm-loan system loans are made by the tens of millions annually and this does not permit of intimate contact (except within the national farm-loan associations) with each borrower. Further than this, Federal farm loans are made for a period of a lifetime, during which the security—the farm—may change owners a great many times. The personal element may, however, be sufficient ground for the rejection of an application for a loan, regardless of the other two factors of the appraisal.

The earning power of the land is specifically recog-

¹ The report by the government appraiser.

nized by the authors of the Farm Loan Act as the fundamental factor in arriving at its agricultural value. The sale value, however, bears a close relationship to the income-producing value or earning power of a farm. Where this is not the case, it is probable that other factors enter in, such as climatic or community advantages. There are, of course, instances of undue land inflation which seem to jar the relationship of all values and lend color to the statement that the sale value is only indicative of the extent of the risk in making loans. A thorough knowledge of conditions, however, is sufficient to discount any sudden fluctuations in land values.¹

An application for a Federal Farm Loan is first appraised by the loan committee of the national farm-loan association, through which the application is made.² This committee submits a detailed written report, not only upon the value of the farm property and the character of the applicant, but also regarding the neighborhood generally. This report, together with the committee's recommendations, is passed on by the board of directors of the association, which, in case it approves the same, elects the applicant to

¹ To meet a situation of this kind the Farm Loan Board ruled that "where a farm has sold within a year at a price materially higher than the last previous sale, such enhanced price was not to be taken into consideration in making an appraisement"; and that "with a few negligible exceptions, not more than \$100 an acre was to be loaned on land devoted to general agricultural purposes, even in those sections where sales were being made at prices ranging from \$250 to \$400 an acre."

² An amendment to Section 10 of the Act authorizes the designation by the loan committee of the secretary-treasurer or some other person to make the necessary investigation on its behalf, but the result of this investigation must be signed by the members of the loan committee.—Federal Farm Loan Board, Circular No. 11, p. 5.

membership and transmits the report with its recommendations to the land bank. The land bank, upon receipt of the application and report of the loan committee and board of directors of the national farm-loan association (on one printed form), instructs a land bank appraiser to inspect the farm which is to be security for the loan. After making exhaustive investigation, the appraiser submits his report and recommendations to the land bank. The land bank has then before it all the essential facts, corroborated by its own investigator, together with such collateral facts as bear on the general conditions in the locality, like the average rainfall, character of the soil, the water supply, transportation and market facilities, educational and social advantages.

The method of arriving at the value of farm lands above outlined has proved to be eminently satisfactory. While it may appear somewhat cumbersome, experience has demonstrated that, once the machinery was established, it operated efficiently and rapidly. The fact that the Farm Loan Board reports but two instances where it has been necessary to take properties in foreclosure, is evidence of the conservative character of the loans that have been made.¹ Assuming that the sale value is the best possible criterion by which to judge the value of the land for agricultural purposes, the Farm Loan Board has had data compiled on the sale of farms which constituted security for Federal farm loans. While the figures given do not include every sale made, they do cover 2,178 typical cases during the fiscal year that ended November 30,

¹ Third Annual Report of the Federal Farm Loan Board, p. 13.

1919. These figures show that of the above number of sales, the loans made by the banks represented 39.98 per cent of the farm values as determined by the appraisers, and 33.41 per cent as determined by subsequent cash sales. They show further that these sales represented an advance of 19.46 per cent over the appraiser's valuation.¹

The above observations and figures relate, of course, to the system as a whole, and do not indicate the peculiar difficulties in valuing farm property in certain land-bank districts. To illustrate: in almost every section of the country land has a *per acre* value. Such is, however, not the case in the New England states. A farm is bought and sold as a unit and not on a *per acre* basis. Ready sale does not depend upon the earning power of the land or the number of acres in the unit, but upon the desirability as a place of residence—a combination of fine old buildings, fields, meadows, and babbling brooks, with some woodland, being more desirable than the most fertile acres. Under such conditions the problems of farm appraisal become very complex. But it is not New England alone that is confronted by peculiar local conditions. Other land-bank districts have had difficult problems in connection with appraising lands in their individual territory; in general these problems have been solved through the co-operation of the officers of the land bank and the Farm Loan Board.

When the property of the applicant for loan has been appraised and the loan allowed by the land bank, the applicant is required to furnish abstract of title

¹ Third Annual Report of the Federal Farm Loan Board, p. 14.

and insurance in such amount as the land bank may designate. The abstract of title is then examined by the legal department of the land bank, the necessary legal papers drawn, executed, and recorded, and the loan closed. The practice of the land banks is to require insurance to the amount of 60 per cent of the value of the permanent structures on the farm.¹ Though the bulk of the insurance furnished is written in mutual companies, especially the small farmers' mutuels, a considerable amount is also written in old-line insurance companies. In certain sections of the country, owing to the remoteness of the property and the undesirability of the business, it is impossible for the owners to get insurance at all, and this has caused no little trouble and annoyance to the borrower and to the land bank. Together with other disadvantages, such as lack of uniformity of policies and mortgage clauses, it has prompted the Farm Loan Board to suggest that "the Federal land banks . . . write fire-insurance policies on permanent structures on the farms of the borrowers,"² to the end that policies be

¹ The Farm Loan Board has ruled "that, with due discretion and discrimination in individual cases, fire insurance should be required whether it is a factor in the security or not. It is believed that where permanent improvements do not exceed the value of, say, \$300, they should not be taken into consideration as a factor in the loan, nor should insurance be required." The board expressed itself as follows on the desirability of insurance: "First, that without insurance, destruction of the buildings on a small farm might destroy its value as a farming unit. With insurance the borrower will be enabled to replace his buildings and continue to live on the farm, or the loan will be reduced to a point of safety by the application of the funds from the insurance to the loan; second, the system owes some duty to the borrowing farmers in an educational way, and the board feels that it is well enough for the banks to encourage the habit among farmers of protecting themselves against loss by fire or other elements."

² Second Annual Report of the Federal Farm Loan Board, p. 13.

issued uniform as to conditions, covenants, and mortgage clauses, and all commissions be eliminated and the overhead expenses reduced. Obviously, certain advantages could be derived from such an undertaking. On the other hand, there is the objection that must come to the mind of anyone; namely, that the system has already a sufficiently large task to perform, and that it is questionable whether the government should take over the function of insurance when individual effort is capable of performing it.

The expenses of the land banks consist largely of the cost of making appraisements of land and examination of title. To cover this cost the land banks are authorized under the Act to charge applicants for loans reasonable fees not exceeding actual cost. These fees are, however, materially less than the cost of the service, the difference being supplied from the earnings of the land banks. As has been stated,¹ the land banks are realizing from borrowers a rate about nine-tenths of one per cent higher than the rate which they are paying on their bonds. From the loans made which represent the bank's capital, against which no bonds have been issued, the land banks are realizing $5\frac{1}{2}$ per cent. The sum of these two items constitutes the gross annual profit on interest account. From this must be deducted all expenses in excess of the sum total of the fees charged to arrive at the net profits of the land banks.

In accordance with the provisions of the Federal Farm Loan Act, each land bank carries to reserve ac-

¹ See footnote, p. 32.

count 25 per cent of its net earnings.¹ Only after it has done so may it declare a dividend to the national farm-loan associations within its district. The national farm-loan association, in turn, must carry 10 per cent of its net earnings to reserve account,² after which it may declare a dividend to its stockholders. Each borrower is required, through his farm-loan association,³ to become a stockholder to the extent of 5 per cent of the amount of his loan. He borrows at a 5½-per-cent rate, but on a loan of \$1,000 he receives only \$950, being required to invest \$50 in stock.⁴ Unless he receives a dividend on his stock he is paying \$55 annually on a loan of \$950, or about at the rate of 5.8 per cent, which, of course, is reduced by such amounts received as dividends on his stock. The Farm Loan Board calls attention to the fact that the dividends distributed for the year ended November 30, 1919, represent only 26 per cent of the net earnings of the land banks.⁴ It has the following comment to make thereon:

While stockholders in a co-operative enterprise, whose stockholding is enforced and not voluntary, have rights which should be respected, the board nevertheless feels that the credit of the banks as constant sellers of securities should be fortified to the fullest possible extent, and that they and their bondholders should be made absolutely secure by the accumulation of a surplus sufficient to take care of any eventuality, however unlikely, which it is at all possible to anticipate.

When this object has been attained, dividends will undoubtedly be declared, and paid in a greater amount

¹ See footnote, p. 26.

² *Ibid.*, p. 26.

³ Except when a loan is made through an agency, in which case the borrower subscribes for a similar amount of stock in the land bank direct.

⁴ Third Annual Report of the Federal Farm Loan Board, p. 11.

than at present, which, of course, will proportionately reduce the rate of interest to the farmers who borrow.

The needs of agriculture cannot be construed to mean the financing of the so-called large farmers, for under usual conditions they are not in urgent need of credit. The land banks are not designed for capitalistic owners of farm lands, but for the great number of small cultivators who are the backbone of agriculture. Therefore, the Farm Loan Act requires that borrowers must be engaged, or about to be engaged, "in the cultivation of the farm mortgaged." The interpretation which the Farm Loan Board has placed on this provision conforms to the spirit of the Act. It has ruled that farm owners who operate their farms, with or without hired help, and who therefore assume all the risks connected with the business, are entitled to loans under the Act. While this ruling prohibits the making of Federal farm loans on farm lands operated by tenants, whether on a share or money rental basis, it does not bar the tenant who wants to become a farm owner from securing a Federal farm loan.

Suppose a tenant farmer has only \$600 or \$700 and desires to purchase a farm. The farm, we will say, is worth \$5,000; the land \$4,000, and the buildings \$1,000. On this valuation the tenant could secure a maximum loan of \$2,000 on the land and \$200 on the buildings, or \$2,200, for which he would give in exchange a first mortgage on the farm. The \$2,200 he pays to the seller as a first payment, retaining his savings for operating expenses. The seller would then take a second mortgage for the balance due, which he can do with perfect safety, giving a certain period

of years to pay it out. A second mortgage in the past has not been a very desirable investment, for the reason that the holder took an additional risk which the holder of a first mortgage did not take; that is, if it became necessary to foreclose in order to protect himself, the holder of the second mortgage had to buy out the holder of the first mortgage. In the transaction stated above, where the tenant secures a Federal farm loan, the situation is entirely different. Federal farm loans are made for a long period of time, on the amortization plan, and at a low rate of interest. In other words, such loans are made with a view to *keeping* the man on the farm. In the event, however, he defaults and it becomes necessary for the land bank to foreclose, the second mortgagee, acquiring title by foreclosure of his mortgage or by quit-claim deed from the borrower, can take over the first mortgage, being only required to pay the exceedingly small amortization installments as they come due, and not the entire loan. He may, of course, take the \$2,200 paid to him by the purchaser, or so much thereof as is necessary, and pay it back to the land bank and get the farm again free from incumbrance. The popular idea of a second mortgage must therefore be revised when considering it in connection with a Federal Farm Loan. A number of local bankers, acting as secretary-treasurers of national farm-loan associations, have adopted with marked success the above plan of assisting tenant farmers who are worthy and who desire to become farm owners.

That the land banks have operated with the purpose of rendering service to agriculture, rather than of building up enormous "dollars and cents" totals,

is reflected in the consolidated statement of financial condition, issued by the Federal Farm Loan Board.¹ Since organization, the statement discloses, 259,349 individuals have applied for loans aggregating \$757,344,907. Of the amount applied for but \$367,834,014 have been loaned to 131,035 farmers. The percentage of shrinkage in the number and amount of applications is approximately 50 per cent, or a ratio of one loan closed to two applied for. The reasons for this shrinkage are numerous. During the early organization of the system it was found that an impression prevailed in many sections of the United States that the funds loaned were government funds,² which would be freely distributed without a business-like consideration of the security offered. The disillusionment of those individuals who submitted applications under this mistaken idea was speedy, for it soon became known that the provisions of the law were being strictly adhered to and that no loans would be made on worthless security or for speculative purposes. There were also individuals who submitted applications for loans with no thought of completing them, but merely to secure a government valuation of their property. This practice brought about a ruling by most of the land banks requiring a fee of five dollars be submitted with each application. This fee was credited to the applicant in the event the security offered was appraised; if the application was withdrawn before appraisal, the fee was returned to the applicant.

¹ At the close of business, October 31, 1920.

² Federal farm loans are not in any sense government loans. The funds from which they are made are created by the sale of Federal Farm Loan Bonds.

The granting of a Federal farm loan is controlled at four points in the process of making the loan. First, loans may be rejected by the farm-loan association; second, by the land-bank appraiser; third, by the Federal land bank; and fourth, by the Farm Loan Board. All canceled, withdrawn, or rejected loans come within one of these classifications. In those sections of the country where land values are high, the \$10,000 limitation fixed by law has automatically caused the rejection of a great many loans. Farms that are rented, unimproved land, and land which is not dependable farming land have not been accepted as security for loans. A great number of loans have been withdrawn voluntarily by the applicant for various reasons. For instance, a farmer makes application in the month of May for closing on the first day of August of the same year. In July he finds that he will likely harvest a good crop and receive good prices. As a consequence he feels that he will be able to get along without making a loan, and therefore withdraws his application. In many instances the applicant has been unable to furnish an abstract disclosing a merchantable title to the land upon which he desires a loan. As a consequence, the land banks have had no alternative but to reject his application. It manifestly would be of little value to enumerate further the reasons for the shrinkage referred to above, for every application canceled, withdrawn, or rejected is governed by a different set of facts and must be considered by the proper officials in the light of all the circumstances affecting the case. This emphasizes the fact that the making of loans through the Federal

farm-loan system, as through any other loaning institution or system, is not automatic or impersonal, but depends upon the ability, efficiency, and experience of those officials and employees within the system in whom is lodged the responsibility of valuing the security and allowing loans.

The best possible criterion by which to judge the standard of service the farm-loan system has rendered since its establishment is the number of farmers it has served. Though loans may be made to the amount of \$10,000, the figures quoted above indicate that no attempt has been made to "get big loans" to swell the totals of the system. On the contrary, the average loan is about \$2,800. In those land-bank districts which embrace the older regions where land values are comparatively high, the average loan is, of course, larger. In other districts, in which the greater part of the loaning area is composed of undeveloped sections, the average is, naturally, lower.

While the system of land-mortgage banking which prevailed prior to the establishment of the Federal farm-loan system rendered a distinct service to the agriculture of this country, agriculture had, as a rule, not only paid too heavy toll for this service, but it had not been granted under the most favorable terms and conditions. The primary purpose of the Federal Farm Loan Act is expressed in the first clause of its preamble, "To provide capital for agricultural development." If the operation of the machinery established in pursuance to the provisions of the Act has fallen short of this accomplishment, it should be displaced by one which comprehends it. If the farm-

loan system has demonstrated its ability, within the short period since its establishment, to meet this need, then it should receive the heartiest co-operation from those individuals and institutions who are in a position to assist in its work.

VI

CO-OPERATIVE FEATURES OF THE FARM-LOAN SYSTEM

THE Federal farm-loan system is not an adaptation, as is popularly supposed, of rural-credit systems established in foreign countries. In fact, its framework in no way resembles that of any other system, although it embodies some of the more important principles of the co-operative land-mortgage credit associations (*Landschaften*) of Germany. The farm-loan system as established is designed to meet American conditions and needs, with a view to rendering service to the country at large and not to any particular state or section. In European countries rural-credit systems were established in a small way for the benefit either of the very poor or of the very rich, and only through evolution and development have their services been extended and made available to farmers in general.

While the structure of the farm-loan system in no way resembles that of foreign co-operative land-mortgage credit systems, it rests upon the same foundation. The fundamental principle upon which all are based is *co-operation of borrowers*—that is, instead of the farmer-borrowers receiving their loans independently and individually, they organize, pool their securities, and thus obtain the most favorable terms. This prin-

ciple is of prime importance to the establishment and development of a land-mortgage credit system in the United States. It was impossible for the farmers to obtain credit in accordance with their needs through independent or individual action. By associating themselves for the purpose of improving their credit facilities, they could place on the market a superior security. For this reason the national farm-loan association was made an integral part of the farm-loan system.

The national farm-loan association is a corporation, chartered by the Farm Loan Board, having perpetual existence unless, of course, it liquidates or consolidates with another association. It is not so much an aggregation of capital, though it has capital stock, as an association of individuals united for the purpose of improving their credit facilities.

The farm-loan association is self-governing as regards its local affairs. The supreme authority is lodged in its board of directors, elected by the members of the association. This board in turn elects officers, and designates a person, who need not be a member of the association, to act as secretary-treasurer. The secretary-treasurer, as has been previously stated, carries on the routine and clerical work of the association and is vested with authority to conduct its current business affairs.

New members are admitted only upon a favorable vote of a majority of the board of directors. The association then, through its board of directors, determines in the first instance the qualifications of the applicant. Our first thought is that this power would

be abused, but experience has shown that no deserving applicant has been refused consideration, while there are many instances where ne'er-do-wells have been very pointedly informed that the association would not become an indorser of their obligations until their methods of farming showed improvement. This feature, judiciously administered, will undoubtedly prove a stimulant to improvement and go far toward making membership in a national farm-loan association a badge of honor.

The Federal farm-loan system was designed for the *bona fide* farmer and not for the speculator. In order that the farmer may reap the real benefits of the farm-loan system, the Farm Loan Act provides that the capital stock be subscribed by the farmers who borrow and not by the outside investing public. If the act had provided for public subscriptions of stock the benefits would have gone to the subscriber and not to the farmers who borrow. It would have been of advantage to the outside public to increase the rate charged the borrower to "as much as the traffic would bear," for then their profits would have been greater. It was just such a policy of rate-setting that the Farm Loan Act was designed to prevent and does prevent. The farmers who borrow through the farm-loan system, and thereby become stockholders, are not so much interested in profits from their stock as they are in securing a loan at a low rate of interest. This can be assured only if they own the stock, because they can then dictate what the interest rate shall be, subject only to the rate at which farm-loan bonds could be marketed (allowing a small per cent above this rate

necessary to defray the expenses incident to operating the farm-loan system). Any surplus is returned to the farmer-borrowers in the form of dividends. Under this plan they secure their loans at absolute cost.

As has been stated, the farm-loan association is primarily an association of persons and not a combination of capital. To insure against a few of the larger borrowers dominating the affairs of the association, through control of its capital stock, the Farm Loan Act provides that a member shall have one vote for each share of stock held by him, but in no case can a member cast more than twenty votes. In the management of the association, therefore, majority rule prevails, for a member borrowing \$2,000 casts the same number of votes as does the member who has secured a \$10,000 loan. The members of the farm-loan association have at all times an influence in the management of its affairs in accordance with the co-operative spirit which permeates the farm-loan system.

The Farm Loan Act provides for a *double liability* as the extent to which members of a farm-loan association obligate themselves in case of default, though in European countries *unlimited liability* has been an accepted principle of co-operative credit. The term *double liability* was familiar to the people of the United States, for the stock in national banks and in most state banks, as well as many other forms of corporations, carries this obligation, which undoubtedly accounts for its inclusion in the Farm Loan Act. This feature is in its nature a safety device, and an additional assurance to the investor. Before the double-liability provision can be resorted to, the land itself

must have depreciated over 50 per cent, the buildings be practically destroyed, and the association's funds exhausted. This eventuality is exceedingly remote. It must also be borne in mind that Federal farm loans are all made on the amortization plan, whereby the principal is being reduced annually or semi-annually, thus increasing the margin of security and reducing the land bank's equity every six or twelve months. Because of the conservative method of making loans, considered with the factors stated above, it is exceedingly unlikely that the liability feature will ever become operative. It is of value, of course, as an additional assurance to the bond buyers and as a means of insuring a continued interest in the affairs of the association on the part of those members who might otherwise feel that they had no further concern with the association or its affairs, inasmuch as their own needs had been cared for.

Among the enumerated powers of the national farm-loan association is the authority to issue certificates, bearing interest at not over 4 per cent annually and running for not longer than one year, against a deposit of current funds. These certificates are convertible into Federal farm-loan bonds when presented to the Federal land bank of the district in amounts of \$25, or any multiple thereof. This provision of the Farm Loan Act was intended to encourage saving and the sale of farm-loan bonds in rural districts. It is patterned somewhat after the method employed by certain co-operative credit institutions in European countries designed to raise funds with which to make loans. In fact, many European institutions make

loans solely from funds deposited with them, and do not issue debentures or bonds at all. This method of financing was possible by reason of their small beginnings and steady growth over a long period of years. A land-mortgage system, however, of such proportions as to meet the needs of American agriculture, could not be financed in this manner without a disturbance of the already well-established and splendid system of savings banks and trust companies. It is doubtful whether any legislation could divert the deposits of these institutions in sufficient amounts to meet the requirements of a national land-mortgage system. While this feature of the system has not been called into operation, it is hoped that when money conditions become more steady, it may be a means whereby the farm hand and the tenant farmer may deposit their savings until they have enough to purchase an equity in a farm and secure a Federal farm loan thereon. The development of this provision of the Farm Loan Act may do much toward solving the tenant problem and eliminating absentee landlordism.

While the Farm Loan Act does not permit the national farm-loan association as such to function for any other purpose than those specifically provided by law, there is no reason, the Farm Loan Board points out,

. . . why the usefulness of the association should stop with borrowing merely because their legal powers stop there. There is no reason why the farmers united in any national farm-loan association should not also associate themselves together for buying, for selling, for personal credit at the bank, or any other co-operative purpose.

This point was further emphasized by the former commissioner of the Farm Loan Board when he said:

. . . the real object of Congress in providing the association feature was to show the farmers the benefit of co-operation. When they saw what co-operating in borrowing had done for them, Congress believed that the farmers would tend to co-operate in all kinds of directions.¹

The co-operative idea embodied in a national farm-loan association extends through the entire farm-loan system. The farmer who borrows in the first instance subscribes to stock in the local association, and the association in turn subscribes an equal amount of stock in the land bank. As the Farm Loan Act provides, the land banks will ultimately be owned co-operatively by the national farm-loan associations of the land-bank district, such associations being themselves co-operatively owned by their members. The co-operative feature of the system extends even further, for the Farm Loan Act provides that land banks shall be liable for the obligations of every other land bank in proportion to the amount of their resources. It is therefore manifest that the system is co-operative from the ground up, so constructed in accordance with American ideas and ideals as to insure steady growth and sound development.

The rapid forming of associations in every land-bank district dispelled the prevailing opinion that the farmers of this country would not co-operate for the purpose of improving their credit facilities. The contention was that in so far as American farmers were concerned there was no "tie that binds." This country, it was said, was the melting pot of the countries of the world; consequently there were no bonds of an-

¹ Address by Commissioner George W. Norris, delivered at Lansing, Michigan, October 14, 1919.

cestry, religion, ideas, and habits, such as made possible the great co-operative credit systems in European countries. Moreover, we had no farm communities, so it was said. On account of the relatively large area of farms, our farmers lived in solitary houses. These factors, it was contended, were not conducive to co-operative effort, no matter how desirable it might be.

After the system was launched, they were found to be theoretical obstacles only. The American farmer took readily to co-operative enterprise when it was demonstrated to be to his interest to do so. There were problems, however, which had to be overcome. The attempts in certain land-bank districts to form farm-loan associations along national, religious, or racial lines were discouraged, except in those localities where they did not interfere with the service the land banks had to render. Among the problems which the Farm Loan Board was called upon to solve can be mentioned the most desirable size for an association, the number of members, amount of loans, and extent of territory covered; the compensation of the secretary-treasurer, and the members of the loan committee; the amount and terms of surety bonds; overlapping of territory; the furnishing of abstracts of title; and the propriety of proposed charges for appraisal or determination of title. These problems involved questions of policy which the Farm Loan Board solved by adopting "such a ruling as would best carry out the purposes we believed that the Congress had in view in the passage of the Act."

During the first year of operation, 1,839 national farm-loan associations were organized in the United

States.¹ The following year this number was increased to 3,439,² and at the end of the third year 4,018 farm-loan associations had been organized in all of the land-bank districts.³ Of the total number of farm-loan associations organized throughout the United States, 128 charters have been canceled, by consolidation or otherwise, leaving 3,890 associations in actual operation.⁴ On December 31, 1920, there were 3,966 associations, which indicates that the organization of new associations is practically at a standstill.⁵ This is not due to any lack of interest upon the part of the farmer borrower. As the reader will recall, the number of associations is now in excess of the number of counties in the United States. It follows that there is very little agricultural territory not already included within the territory of an existing association. The number of associations, therefore, will practically remain constant, and those already established increase their size and membership.

In certain localities the forming of national farm-loan associations was undertaken by individuals whose object was to secure "easy money." They had no intention of building up permanent organizations in order that their benefits could be extended to their neighbors in the future. Fortunately, these attempts were not many. They emphasize, however, the importance of the personal factor in the forming of an association. Good, substantial farmers having formed

¹ First Annual Report of the Federal Farm Loan Board, p. 30.

² Second Annual Report of the Federal Farm Loan Board, p. 19.

³ Third Annual Report of the Federal Farm Loan Board, p. 20.

⁴ On November 30, 1919. Third Annual Report of the Federal Farm Loan Board, p. 20.

⁵ Fourth Annual Report of the Federal Farm Loan Board, p. 5.

an association were of course loath to admit shiftless and unworthy farmers to membership. There were localities, however, where the shiftless and unworthy farmers took things into their own hands and organized for the purpose of "getting some of this easy money." In one of the middle Northern states, the organization of two national farm-loan associations was begun in the same county. The first association had twenty-two charter members, whose applications for loans aggregated \$45,000. The appraiser's valuations of the security offered placed the value of the land at \$49,755 and the buildings at \$14,375, which of course indicates that the amounts applied for were unduly high. Eighteen of the applications were approved by the land bank in an amount aggregating \$26,400, approximately one half of the amount applied for. Only three applications were granted in full. As a result this association was never completed. The second association began with twenty-seven charter members, whose applications totaled \$54,950. The land-bank appraiser valued the security offered as follows: the land, \$84,680, and the buildings, \$44,510. Twenty-three of the applications were approved in the amount applied for and the association formed. It is clear that the second association represented a higher type of farmers than did the first association. Those farmers, however, in the first association who made *bona fide* application for Federal farm loans were taken care of by an arrangement whereby they were transferred to the second association through consolidation of the two associations. Thus, while the shiftless were excluded from membership, the benefits of the Farm

Loan Act were not denied to any worthy farmer in that locality.

In those sections of the country where the lack of farm credit was not a decided handicap, the organization of national farm-loan associations presented a problem quite different from that in the newer and less-developed sections. It was often difficult "to get the association started" because of the desire of the farmers not to "antagonize" the local bankers. While there was ground for this feeling in some localities, in most districts it was far from being justified. The experience of a certain banker in the seventh land-bank district is typical. This banker in organizing his bank had taken in as stockholders some of the leading farmers in his community. He established his bank on the principle that it had a service to perform not only to its stockholders and depositors, but to the community as a whole. In the early part of 1917, several farmers, who were customers of the bank, made inquiry in regard to the Federal farm-loan system. The banker stated frankly the nature of a Federal farm loan and the service the land banks could render. He suggested that they make an effort to secure a sufficient number of farmers to form an association, if they were interested in securing the long-term, amortized loan which the land banks could make and which he, as a commercial banker, could not make. The necessary number of farmers was found and the association organized.

Up to this time [the banker stated, in a letter to the author] the officers of this bank contended that the association should be handled by the farmers themselves and that it should not be

handled through the bank. At the earnest request of the directors of the association, however, I accepted the position as secretary-treasurer. I had to do most of the work in the evening in order not to interfere with the work at the bank. Applications for loans came in so fast, however, that it was impossible to continue the work as a side line. I then got permission from the directors of the bank to merge the work as secretary-treasurer with that of the bank. This proved to be one of the best things that ever happened to both the bank and the association. It brought business to the bank from all parts of the county, for in making a Federal farm loan there usually was involved the closing up of a land deal or the transfer from one member of the family to another. Thus thousands of dollars were handled and the bank was in a position to secure time deposits for at least a part of the proceeds. The association benefited because every inquiry was given the same attention as the regular bank work and the applicant was fully informed as to the operation of the system as compared with the old method of mortgage banking. Each borrower became a booster not only for the association, but for the bank, and both profited thereby. Of course we realize that if it were not for this fact it would not be possible for the bank to carry on the work of the association at a profit with the small salary paid the secretary-treasurer. We feel, however, that we have been repaid in added patronage and the good will of our farmers.

The banker realized the fact that the farmers in his community must prosper before he, or his bank, could prosper. He had in mind the real importance of the country to the town, the interlocking of interests and consequent need of co-operation if both were to progress.

The most important official of the association is the secretary-treasurer. The success of the association depends largely upon the kind of man who occupies that office. While the secretary-treasurer should be tactful, it does not necessarily follow that he should be a "good fellow" and allow irregularities to enter in to accommodate some member or prospective

member. He should have a knowledge of business affairs and conduct his office in a business-like manner. This does not necessarily mean that a secretary-treasurer should be a business man or a banker. The Farm Loan Board has compiled a report showing the occupation of secretary-treasurers as follows: 43 per cent of the farm-loan associations have as secretary-treasurers farmers; 30 per cent local business men; 16 per cent local bankers; 9 per cent lawyers; and 2 per cent men of other occupations.¹ The advantage of employing some one residing in the village or town where the association has its headquarters is apparent. The farmer member, having business to transact with the association, can do so when he comes to town on other errands. Such an arrangement facilitates the business of the association in that the mail from the land bank, the register of deeds, and others, is received, and can be attended to the same day.

An arrangement whereby the local bankers act as secretary-treasurers has been eminently satisfactory to many associations in some of the land-bank districts. This is especially true in the seventh Federal land-bank district. In two of the states of that district approximately 50 per cent of the associations have selected as their secretary-treasurer the local banker. In these states the bankers have indicated a desire to assist the farmers in perfecting their associations, and place at their disposal the *auxiliary* service which the local banker can render in closing a Federal farm loan. This attitude on the part of the local banker has brought about a closer relationship

¹ Second Annual Report of the Federal Farm Loan Board, p. 8.

and co-operation between town and country. What has been done in these two states has been done, though perhaps to a lesser degree, by many associations in other districts.

The long-term credit needs of the farmer have been cared for through the Federal farm-loan system, and the problem of supplying the short-term or seasonal requirements of the farmer is left to the country banker. This is as it should be, for the local banker is in no way equipped to make long-term loans. The money which he has on deposit is subject to withdrawal on demand or within a comparatively short time. Consequently he cannot tie up his money for a long period of time, but must so invest it that a steady stream of money flows into his bank to care for the demands made upon him. It is evident that great good will result from honest and active co-operation between the local bank and the farm-loan association. The co-operative spirit which permeates the Federal farm-loan system is therefore not confined to its own limits, but extends beyond, and invites individuals and institutions outside the organization to assist in placing our basic industry—agriculture—on a sound financial basis.

VII

SERVICE ASIDE FROM MAKING LOANS

THE duties imposed by law upon those who are in charge of the Federal farm-loan system involve principally the lending and collecting of money. The members of the Farm Loan Board have not, however, confined themselves to a strict interpretation of the Farm Loan Act, but have given it a broader interpretation in accordance with the spirit of co-operation which it embodies. This is evidenced by the service the system has rendered, aside from making loans.

Certain services to the government, in addition to the making of loans to farmers, were, to be sure, enjoined by the Act upon the Federal land banks. The concluding clause of the preamble states that the system is intended "to furnish a market for United States bonds, to create government depositaries and financial agents of the United States, and for other purposes." The provisions of the law for performing these functions have been called into active operation and effectively carried out.

During the fall of 1918, the Federal land banks of Wichita, Spokane, and St. Paul were designated as financial agents of the United States, for the making of seed-grain loans to farmers in drought-stricken areas, the President of the United States having, at

the request of the Secretary of Agriculture, set aside \$5,000,000 for that purpose from his \$100,000,000 war fund. This task involved the taking from each borrower of a note and mortgage upon the crop planted. In the discharge of this task loans were made by the land bank of Wichita to the number of 4,402 in the amount of \$1,892,345; by the land bank of Spokane to the number of 6,149 in the amount of \$1,949,934; and by the land bank of St. Paul to the number of 1,137 in the amount of \$358,559. This service was rendered to the government without charge, except the additional clerical hire made necessary by the transaction of the business.¹

The Federal land banks have been of service to the government directly or indirectly on other occasions. The Farm Loan Act provides that 5 per cent of that part of the capital of the land bank, for which stock is outstanding in the name of the national farm-loan associations, shall be invested in United States government bonds. As a matter of fact the land banks have at all times held United States government bonds in an amount in excess of that prescribed by law; in fact, as the Farm Loan Board points out in its second annual report,² an amount in excess of \$7,000,000 (approximately the amount of capital stock of the land banks outstanding at that time in the name of national farm-loan associations) was invested in United States government bonds and United States certificates of indebtedness. As we have seen, it has been necessary for the land banks, in disposing of farm-

¹ Third Annual Report of the Federal Farm Loan Board, pp. 18-19.

² Second Annual Report of the Federal Farm Loan Board, p. 8.

loan bonds, to purchase United States certificates of indebtedness in large amounts, to be used as security in bond issues until such time as mortgages could be substituted. As the Federal farm-loan system develops and expands, the land banks will undoubtedly become of greater service in the fiscal operations of the government.

The provisions of the Farm Loan Act specifying the purposes for which loans may be made are of equal importance with the financial assistance rendered to the farmer-borrowers. These provisions make it a condition precedent to the granting of a loan that the proceeds be used for the purposes specified in the Farm Loan Act. As we have seen, these purposes include every productive use to which the farmer can apply the proceeds of his loan. The farmer's attention, therefore, has been directed toward using credit for productive purposes, with the result that he has manifested a greater interest in improved agricultural methods. This does not mean that the efforts of the United States Department of Agriculture are being duplicated, but rather that they are being assisted in a very effective manner. The purpose of the United States Department of Agriculture is to bring home to the people in rural sections the best things that have been learned of agricultural methods and needs. On the other hand, county agents of the United States Department of Agriculture have in many instances assisted in the organization of national farm-loan associations. In carrying out their duties as financial agents of the United States, the land banks of Wichita, Spokane, and St. Paul were indeed assisted by agents

of the Department of Agriculture. Information has been disseminated by the extension department of the United States Department of Agriculture, and the state agricultural colleges, bearing on the advantages of the Federal farm-loan system, supplementing publications issued by the Farm Loan Board and the several land banks.

The Federal land banks have rendered an inestimable service through their legal departments to the farmers of the country who have secured Federal farm loans. In some of the land banks as high as 30 per cent of the abstracts of title disclosed an unmarketable title to the land offered to the land bank for a loan. The legal department has listed the defects and advised the farmer how to make his title marketable, thereby enabling him to secure a loan. In many states it was found that the abstracting of titles was practically an unknown business. In other states, owing to the absolute destruction of many records, carelessness in the keeping and indexing of others, and the failure of landowners, in many instances, to record their evidence of title, it was found necessary to arrange for title insurance in order to protect the land banks from loss by reason of failure of title.¹ The result is that thousands of farmers who previously had no marketable title to their lands, and other thousands who did not know what kind of a title they possessed, have had the title to their land straightened out, for which the land banks have charged a fee so low that this service may almost be said to have been rendered gratuitously.

In some districts the land banks have encouraged the

¹ Second Annual Report of the Federal Farm Loan Board, p. 12.

formation of co-operative buying and selling associations, breeding associations, co-operative creameries, cheese factories, condensing stations, and potato warehouses. They have encouraged the good-roads movement by informing the management of local associations that they look with disfavor upon loans on farms which do not have ready access to good roads, where, as a consequence, the cost of transporting products to market is unduly high.

Perhaps one of the most striking instances of the service that the land banks can render in improving the economic conditions over a large territory is found in the action taken by the Federal Land Bank of St. Paul in the summer of 1918. As a result of repeated crop failures in western North Dakota, caused by drought, the economic condition of the farmers in that part of the state was at that time very unfavorable. The land bank sent a circular letter to every national farm-loan association in western North Dakota, calling attention to the fact that there were many grasses and feed crops that could be depended upon in periods of drought, as well as in normal years, and that instead of relying exclusively upon grains the farmers should turn their attention to the raising of live stock and keeping milk cows on the farm, so as to have a dependable income in times of drought as well as in times of plenty. The letter concluded with the statement:

Hereafter we will only entertain applications from farmers who have shown from their farming operations in the past that they have a dependable income, and they must have live stock and dairy cows to assure this for the future. All loans that do not comply

with these requirements will be rejected by us, because we do not consider them safe loans. You will understand that this ruling is not only to protect us and the farm-loan association, but is for the best interests of the farmers themselves.

This ruling was most rigidly enforced, despite a considerable number of protests. The report of the State Agricultural College of North Dakota shows that the dairy production of the state increased 100 per cent during the fiscal year 1918-19, this increase being particularly large in the western part of the state. At least a part of this increase is due to the attitude of the Federal land-bank authorities.

In those sections of the country, particularly in the South, where lands have suffered from erosion, the land banks have insisted upon terracing as one of the conditions upon which they will make loans on rolling lands. Land-bank appraisers were instructed to inform themselves relative to these conditions, and where damage had already occurred, and was likely to be increased, the land banks insisted that the borrower should terrace. Through the county agent of the United States Department of Agriculture the farmer was advised where and how to terrace. Until this had been done the land bank held out a sufficient amount of money from the applicant's loan to pay for this improvement. In other land-bank districts similar conditions arose which afforded the land bank an opportunity to be of additional service to the agricultural interests of their respective districts.

The spirit of service is not confined to the Federal land banks. It is also found in the national farm-loan associations. While these associations were formed

primarily for the purpose of improving the credit facilities of their members, in many instances they have carried their co-operative efforts farther. In one of the large farm-loan associations in western North Dakota the secretary-treasurer, who is a banker, took it upon himself to induce each prospective borrower to buy enough cows to give him a start in dairying. This secretary-treasurer also went into the sheep business in partnership with one of the members of the association, and these two men brought in cattle and sheep, supplying them to the neighboring farmers at reasonable prices. The records of the land bank of St. Paul show that there has not been a single delinquency in this association, despite the fact that it is located in a territory where drought conditions have prevailed to an extent which has caused very acute distress. In another instance, in the newer section of northern Wisconsin, a secretary-treasurer of one association prevailed upon his members to place the dividends on their stock in a fund to be used for the purpose of reloaning to any member of the association to purchase dairy cattle. During the past two years this fund has been turned over a number of times.

The co-operative spirit which permeates the Federal farm-loan system will go far toward solving the economic and social problems of our rural communities. A great deal has been said of late concerning the trend of population from country to city. While the alarm over the depopulation in favor of urban districts is as old as history, it nevertheless behooves us to inquire into the status of this "back-to-the-

city" trend at this time. This gradual migration from country to city injures in no way the welfare of the rural districts, except in so far as it has to do with farm labor. The result to the rural population is to increase the size of the farms—that is, to widen the scope of agriculture for those who remain on the farms, and increase the price of food products to such an extent as the supply of subsistence needed for the country at large is reduced or menaced. The injury results rather to the nation at large. It therefore becomes our duty to seek out the causes and apply the remedy.

The United States Bureau of Census reports that in 1910, 31.1 per cent of the population of the United States lived in cities of 8,000 or more, while in 1790 there were but 3.3 per cent of such urbanites. In 1910, the bureau estimated that 46.3 per cent of our people were urban (reckoning cities of 2,500 or more as urban) as compared with 38.1 per cent in 1890 and 40.5 per cent in 1900; while 53.7 per cent in 1910 were rural in comparison with 63.9 per cent in 1890 and 59.5 per cent in 1900. The preliminary estimate of the bureau for the year 1920 shows that 48.1 per cent were rural (including villages) and that 38.8 per cent of our population were actually living on farms. This same report shows that 51.9 per cent were living in towns of 2,500 or over.

The underlying causes of the cityward trend are social and economic—social in that the farmers' home life has been isolated, and economic to the extent that adequate facilities had not been provided for the marketing of their security. Their social requirements

cannot be cared for by farm colonies or "back-to-the-land" movements. These have been but local in scope, with few exceptions were begun for mercenary motives, and, when the dollar had been squeezed out, they were left to their fate. Social, cultural, vocational, and recreational needs of our rural population can, however, be met in other ways. Counter attractions equal in scope to those of the cities can be brought to the country; country life can be and ought to be improved; the comforts and conveniences of the city home can be brought to the country home; and rural life can be made more attractive by bringing to rural districts more amusements and recreations for the child and the adult.

The solution of the economic problem is essential to the solution of the social problem. Social advantages cannot be brought to our rural districts unless our farming industry is adequately financed. The farm, in the first instance, must be put on a paying basis if the community itself is to prosper. When this condition prevails rural life will become more desirable. The youth of the country will not drift to the city, but will look upon farming as an honorable and useful life, with real aims and ideals.

The present importance of agriculture to civilization lies in the number of people it supports; its ultimate importance lies in the fact that it must continue to provide supplies for an ever-increasing population. The problems of our agricultural industry concern every member of society, and it behooves us to give them our earnest consideration. The Federal farm-loan system is a forward step toward the

solution of these problems in the United States. Its principal purpose is to provide for our agricultural industry an adequate market for the security it has to offer, which is the soil itself, with a view to properly developing that soil. This, in the last analysis, is the object and aim of the Federal farm-loan system. That this purpose is of great moment to agriculture and to the nation at large is not to be gainsaid. That it has and is serving this purpose is a matter of record.

APPENDIX A

JOINT-STOCK LAND BANKS

THE Federal Farm Loan Act provides for two separate and distinct types of banks within the Federal farm-loan system—the Federal land banks and the joint-stock land banks—both of which are under the general supervision of the Federal Farm Loan Board. Since the field of operation of the Federal land banks was to include the whole nation, and since their establishment was mandatory, while on the other hand the joint-stock land banks were to be set up only here and there and were in all cases only permissive, we may conclude that Congress regarded the Federal land banks as the important part of the system. The provision of the act relating to joint-stock land banks is as follows:

That corporations, to be known as joint-stock land banks, for carrying on the business of lending on farm mortgage security and issuing farm-loan bonds, may be formed by any number of natural persons not less than ten.

Congress, in providing for the establishment of joint-stock land banks, did not intend to destroy established mortgage concerns doing a reputable business. Provision was therefore made whereby such institutions, or any new joint-stock land banks that

might be established, would be clothed with the same advantages as Federal land banks in order that all might do their part toward serving the farm-loan needs of the country.

Any joint-stock land bank, so the Farm Loan Act provides, must have, before it is permitted to commence business, a subscribed capital of at least \$250,000, one half of which must have been paid in. The stockholders, ten or more persons, elect from their number a board of directors of not less than five, who select from their number the necessary officers. The capital stock of the joint-stock land banks is subscribed by investors, the borrowers not being required to subscribe, as they must in case they obtain a loan through the Federal land banks. Dividends are, of course, paid only to the stockholders.

The joint-stock land banks secure funds for loaning purposes, as do the Federal land banks, by the sale of bonds which they are permitted to issue up to fifteen times their capital and surplus. While the bonds of the Federal land banks have behind them the assets and credit of all of the twelve Federal land banks, those of each joint-stock land bank stand alone. They enjoy the same privilege of tax exemption as do the bonds of the Federal land banks. No joint-stock land bank is permitted to receive deposits or to transact any banking business not expressly authorized by the Farm Loan Act. The territory within which any joint-stock land bank may operate is limited to the state in which it has its principal office and one contiguous state. The Farm Loan Act provides that all loans made by joint-stock land banks must be on the

amortization plan and shall in no case bear a rate of interest in excess of 6 per cent.

While no specific limitation is fixed by the Farm Loan Act upon the amount that a joint-stock land bank may loan to any borrower (except that no loan may be made in excess of 50 per cent of the value of the land and 20 per cent of the permanent insured improvements thereon) and while there is no stipulation as to the use of the proceeds of a loan, the Farm Loan Board, in the exercise of its general supervisory powers, has ruled that a joint-stock land bank may not make a loan to any borrower in excess of 15 per cent of its capital stock, nor, in any event, in excess of \$50,000. The Farm Loan Board, in order to control the purpose as well as the amount to be loaned, was of the opinion that the loans made by the joint-stock land banks should bear some relation to the primary purposes for which the farm-loan system was established, "to provide capital for agricultural development," and, accordingly, issued a ruling to the effect that loans are not to be made unless their purpose may fairly be said to be related in some way to agricultural development. The solicitor of the Treasury, in response to a request for a ruling upon the subject from the Farm Loan Board, held that joint-stock land banks were subject to the same prohibition as Federal land banks against making loans to corporations. Upon review, the Attorney-General of the United States approved the opinion of the Solicitor of the Treasury.

Joint-stock land banks, despite the advantages claimed by reason of the fact that they could make loans directly to farmers without the intervention of any

national farm-loan association, were slow in organizing. During the first year a great number of "promoters" in some of the Western and Southern states organized what were called "rural-credit associations," representing that these associations would subsequently be incorporated as joint-stock land banks under the Farm Loan Act. An early ruling of the Farm Loan Board, however, to the effect that no charter would be granted to any joint-stock land bank in the organization of which there had been any expense for promotion soon put a stop to these fraudulent schemes. Four *bona-fide* joint-stock land banks had been organized up to November 30, 1917. By November 30, 1918, five more had been organized, making a total of nine, which in the aggregate had made loans up to that date to the amount of \$7,289,870, which was less than 5 per cent of the total business done by the system. During the twelve months ending November 30, 1919, however, the joint-stock land banks increased in number from nine to thirty, the aggregate paid in capital from \$2,010,850 to \$8,638,650, and the total volume of business from \$7,289,870 to \$54,126,357.75.

The Farm Loan Board, in its third annual Report to Congress, states the relative proportion of business done by the two classes of banks:

In the month of November, 1917 [the report says], the loans made by the joint-stock land banks represented 15 per cent of the business of the system for that month. In the month of November, 1918, the loans made by these banks represented 38 per cent of the system. The orders given for the engraving of farm-loan bonds bearing date November 1, 1919, to be used between that date and May 1, 1920, indicate that the joint-stock land banks expect to do a volume of business in that period approximately

75 per cent of that expected to be done by the Federal land banks. It may therefore be said that the increase in number, and the development of the business, of joint-stock land banks is the outstanding feature of the operations of the Federal farm-loan system during the past year.

The development of the business of the joint-stock land banks during the year 1919 probably did not result in the absorption of any considerable amount of business that would otherwise have gone to the Federal land banks. In fact, the loans made by the Federal land banks during the year exceeded those of the previous year by \$25,000,000, with every indication toward an even greater demand for loans when the operations of the system were temporarily halted by the litigation involving the constitutionality of the Federal Farm Loan Act. The business of the joint-stock land banks, therefore, seems to have been that which would otherwise have gone to the old-line mortgage companies.

An indication of the possible profits of a joint-stock land bank is given in the Report of the Farm Loan Board above referred to as follows:

For the purpose of estimating the probable profits of a joint-stock land bank, a pure estimate is of as much value as any demonstrated results to date. It is easy to see that the gross profits of such a bank are 6 per cent on its capital and 1 per cent on the volume of farm-loan bonds outstanding, which represents 15 per cent additional, as the amount of bonds issued may be fifteen times the capital stock. It has been the practice of these banks to realize a small premium on the sale of their bonds. These premiums, added to the charges which they are entitled to make against borrowers, should nearly balance the cost of "getting business on the books." Any balance lacking would certainly be made up out of the profits of the following year. From the gross

earnings, which would amount to 21 per cent upon the stock, if all the money of the institution could be kept invested all the time at 6 per cent, must be deducted the loss on temporarily unproductive funds and the expense of doing business. The net return is dependent upon the ability of the management to keep down expenses and minimize the amount of idle funds.

As a result of agitation in Congress against the joint-stock land banks, an amendment was adopted to the Farm Loan Act (approved May 29, 1920) providing for the liquidation of joint-stock land banks. This amendment states, in effect, that any joint-stock land bank may go into voluntary liquidation upon a two-thirds vote of its shareholders. During the year 1920 three joint-stock land banks, two located in the state of Virginia and one in the state of Kansas, availing themselves of the privilege of this amendment, went into voluntary liquidation.

The proponents of the joint-stock land-bank feature of the Farm Loan Act urge in their behalf the fact that in the making of a loan the joint-stock land banks deal directly with the farmer, and not, as do the Federal land banks, through an association of farmers. Therefore they contend there is no red tape or delay in the making of a loan. In answer it has been stated that the weight of this argument loses its force from the fact that loans, through the Federal land bank, are made for thirty years or more. A farmer securing such a loan ordinarily does not demand that it be closed immediately after making application. In addition it should be noted that the making of loans through the Federal land bank was greatly expedited by certain amendments to the Farm Loan Act permitting the handling of a loan in the country almost

entirely by the secretary-treasurer of a national farm-loan association, thereby offsetting what little advantage there might be in making the loans directly through an agent to the farmer.

The contention has also been made that joint-stock land-bank loans were more favorable to the farmer borrowers for the reason that they were not required by law to invest 5 per cent of the amount of their loan in capital stock, as is the case in the event a loan is obtained through a Federal land bank. The line of demarcation between the two banks is here clearly drawn. The joint-stock land banks are owned and operated by private investors and the profits are distributed in the form of dividends to its stockholders. The Federal land banks, on the other hand, are, as contemplated by the Act, owned and operated by the farmer-borrowers. They are the stockholders, their stock holdings being represented by 5 per cent of the amount of their loans. The earnings of the Federal land bank are distributed to the farmer-borrowers in the form of dividends on their stock holdings, thus proportionately reducing the amount of interest paid on their loans. It is often stated that if a farmer borrows from a joint-stock land bank he receives the full amount of his loan, while the Federal land bank gives him only nineteen twentieths of the amount he applies for. While technically this is true, as a matter of fact the farmer makes application for such additional amount as is necessary to cover his stock subscription. The earning power of the farmer's stock holding is, as we have seen, not of prime importance. The fact that he has a voice in fixing the interest rate, subject to pre-

vailing money conditions, is of greater consideration. On the other hand, the incentive for gain which is ever present with the joint-stock land banks makes the earning power of the stock the first consideration, as in any other privately owned and operated institution.

APPENDIX B

THE FEDERAL FARM LOAN ACT

(Approved July 17, 1916)

(39 Stat. 360)

As amended January 18, 1918 (40 Stat. 431); April 20, 1920 (Public Document No. 182, Sixty-sixth Congress); and May 29, 1920 (Public Document No. 232, Sixty-sixth Congress).

AN ACT TO provide capital for agricultural development, to create standard forms of investment based upon farm mortgage, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create Government depositaries and financial agents for the United States, and for other purposes.

Purpose.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be "The Federal Farm Loan Act." Its administration shall be under the direction and control of the Federal Farm Loan Board hereinafter created.

Short title.
Farm Loan Act.

Administration under
Farm Loan Board.

DEFINITIONS

SEC. 2. That wherever the term "first mortgage" is used in this Act it shall be held

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First mortgage defined.

Farm loan bonds defined.

to include such classes of first liens on farm lands as shall be approved by the Federal Farm Loan Board, and the credit instruments secured thereby. The term "farm-loan bonds" shall be held to include all bonds secured by collateral deposited with a farm-loan registrar under the terms of this Act; they shall be distinguished by the addition of the words "Federal," or "joint stock," as the case may be.

FEDERAL FARM LOAN BOARD

Federal Farm Loan Bureau established.

SEC. 3. That there shall be established at the seat of government in the Department of the Treasury a bureau charged with the execution of this Act and of all Acts amendatory thereof, to be known as the Federal Farm Loan Bureau, under the general supervision of a Federal Farm Loan Board.

To consist of five members, including Secretary of Treasury (ex officio), to be appointed by the President.

Bipartisan; must be citizens, and devote entire time.

Said Federal Farm Loan Board shall consist of five members, including the Secretary of the Treasury, who shall be a member and chairman ex officio, and four members to be appointed by the President of the United States, by and with the advice and consent of the Senate. Of the four members to be appointed by the President, not more than two shall be appointed from one political party, and all four of said members shall be citizens of the United States and shall devote their entire time to the business of the Federal Farm Loan Board; they shall receive an

annual salary of \$10,000 payable monthly, together with actual necessary traveling expenses.

Salaries and expenses

One of the members to be appointed by the President shall be designated by him to serve for two years, one for four years, one for six years, and one for eight years, and thereafter each member so appointed shall serve for a term of eight years, unless sooner removed for cause by the President. One of the members shall be designated by the President as the Farm Loan Commissioner, who shall be the active executive officer of said board. Each member of the Federal Farm Loan Board shall within fifteen days after notice of his appointment take and subscribe to the oath of office.

Terms of office.

Designate Farm
Loan Commissioner.

Oath of office to be
taken within 15 days.

The first meeting of the Federal Farm Loan Board shall be held in Washington as soon as may be after the passage of this Act, at a date and place to be fixed by the Secretary of the Treasury.

First meeting must
be held in Washington.

No member of the Federal Farm Loan Board shall, during his continuance in office, be an officer or director of any other institution, association, or partnership engaged in banking, or in the business of making land-mortgage loans or selling land mortgages. Before entering upon his duties as a member of the Federal Farm Loan Board each member shall certify under oath to the President that he is eligible under this section.

Members cannot be
associated with other
banking or mortgage
interests.

Oath taken.

The President shall have the power, by and

Vacancies in board filled by the President.

with the advice and consent of the Senate, to fill any vacancy occurring in the membership of the Federal Farm Loan Board; if such vacancy shall be filled during the recess of the Senate a commission shall be granted which shall expire at the end of the next session.

Board to appoint farm-loan registrar and deputy registrars for each district, land-bank appraisers, and land-bank examiners.

The Federal Farm Loan Board shall appoint a farm-loan registrar in each land-bank district to receive applications for issues of farm-loan bonds and to perform such other services as are prescribed by this Act, and may appoint a deputy registrar who shall during the unavoidable absence or disability of the registrar perform the duties of that office. It shall also appoint one or more land-bank appraisers for each land-bank district and as many land-bank examiners as it shall deem necessary. Farm-loan registrars, deputy registrars, land-bank appraisers, and land-bank examiners appointed under this section shall be public officials and shall, during their continuance in office, have no connection with or interest in any other institution, association, or partnership engaged in banking or in the business of making land-mortgage loans or selling land mortgages: *Provided*, That this limitation shall not apply to persons employed by the board temporarily to do special work.

All to be public officials, not interested in other institutions, designated.

Temporary employment for special work allowed.

Salaries and expenses paid by United States.

The salaries and expenses of the Federal Farm Loan Board, and of farm-loan regis-

trars and examiners authorized under this section, shall be paid by the United States. Land-bank appraisers shall receive such compensation as the Federal Farm Loan Board shall fix, and shall be paid by the Federal land banks and the joint-stock land banks which they serve, in such proportion and in such manner as the Federal Farm Loan Board shall order.

Board to fix compensation of land-bank appraisers to be paid by respective land banks.

The Federal Farm Loan Board shall be authorized and empowered to employ such attorneys, experts, assistants, clerks, laborers, and other employees as it may deem necessary to conduct the business of said board. All salaries and fees authorized in this section and not otherwise provided for shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the Federal Farm Loan Board. All such attorneys, experts, assistants, clerks, laborers, and other employees, and all registrars, examiners, and appraisers shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: *Provided*, That nothing herein shall prevent the President from placing said employees in the classified service.

Board may employ necessary administrative force.

Salaries and fees fixed in advance; paid by United States.

Administrative force exempted from provisions of civil-service law.

President may place employees in classified service.

Every Federal land bank shall semiannu-

Federal land banks must furnish schedule

THE FEDERAL FARM-LOAN

to board annually showing compensation paid to officers and employees.

Board must make annual report to Speaker of the House.

Examinations and reports of condition of land banks to be made to board and published.

Board must require appraisal of farm land; must cause amortization tables to be published.

Must prescribe forms for statement of condition; require quarterly reports.

Bulletins of information must be prepared and distributed showing advantages of amortization and giving instructions for organizing and conducting farm-loan associations.

ally submit to the Federal Farm Loan Board a schedule showing the salaries or rates of compensation paid to its officers and employees.

The Federal Farm Loan Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

The Federal Farm Loan Board shall from time to time require examinations and reports of condition of all land banks established under the provisions of this Act, and shall publish consolidated statements of the results thereof. It shall cause to be made appraisals of farm lands as provided by this Act, and shall prepare and publish amortization tables which shall be used by national farm-loan associations and land banks organized under this Act.

The Federal Farm Loan Board shall prescribe a form for the statement of condition of national farm-loan associations and land banks under its supervision, which shall be filled out quarterly by each such association or bank and transmitted to said board.

It shall be the duty of the Federal Farm Loan Board to prepare from time to time bulletins setting forth the principal features of this Act and through the Department of Agriculture or otherwise to distribute the same, particularly to the press, to agricultural journals, and to farmers' organizations; to

prepare and distribute in the same manner circulars setting forth the principles and advantages of amortized farm loans and the protection afforded debtors under this Act, instructing farmers how to organize and conduct farm-loan associations, and advising investors of the merits and advantages of farm-loan bonds; and to disseminate in its discretion information for the further instruction of farmers regarding the methods and principles of co-operative credit and organization. Said board is hereby authorized to use a reasonable portion of the organization fund provided in section thirty-three of this Act for the objects specified in this paragraph, and is instructed to lay before the Congress at each session its recommendations for further appropriations to carry out said objects.

Investors to be advised of merits and advantages of farm-loan bonds; principles and methods of co-operative credit to be explained.

Organization fund made available.

Further appropriations to be asked from Congress as needed.

FEDERAL LAND BANKS

SEC. 4. That as soon as practicable the Federal Farm Loan Board shall divide the continental United States, excluding Alaska, into twelve districts, which shall be known as Federal land-bank districts, and may be designated by number. Said districts shall be apportioned with due regard to the farm-loan needs of the country, but no such district shall contain a fractional part of any State. The boundaries thereof may be readjusted from time to time in the discretion of said board.

United States to be divided into 12 districts, none to include a fractional part of a State.

Apportioned with reference to farm-loan needs.

THE FEDERAL FARM-LOAN

One Federal land bank in each district.

Title to include name of city where located.

Branches

Temporary management vested in five resident bonded directors.

To receive compensation and choose officers.

May employ adequate force; fix compensation.

Must make organization certificate, to include—

Name assumed. District and city of principal office.

The Federal Farm Loan Board shall establish in each Federal land-bank district a Federal land bank, with its principal office located in such city within the district as said board shall designate. Each Federal land bank shall include in its title the name of the city in which it is located. Subject to the approval of the Federal Farm Loan Board, any Federal land bank may establish branches within the land-bank district.

Each Federal land bank shall be temporarily managed by five directors appointed by the Federal Farm Loan Board. Said directors shall be citizens of the United States and residents of the district. They shall each give a surety bond, the premium on which shall be paid from the funds of the bank. They shall receive such compensation as the Federal Farm Loan Board shall fix. They shall choose from their number, by majority vote, a president, a vice president, a secretary, and a treasurer. They are further authorized and empowered to employ such attorneys, experts, assistants, clerks, laborers, and other employees as they may deem necessary, and to fix their compensation, subject to the approval of the Federal Farm Loan Board.

Said temporary directors shall, under their hands, forthwith make an organization certificate, which shall specifically state:

First. The name assumed by such bank.
Second. The district within which its op-

erations are to be carried on, and the particular city in which its principal office is to be located.

Third. The amount of capital stock and the number of shares into which the same is to be divided: *Provided*, That every Federal land bank organized under this Act shall by its articles of association permit an increase of its capital stock from time to time for the purpose of providing for the issue of shares to national farm-loan associations and stockholders who may secure loans through agents of Federal land banks in accordance with the provisions of this Act.

Capital stock; number of shares.

Increase of stock for issuance of shares to borrowers.

Fourth. The fact that the certificate is made to enable such persons to avail themselves of the advantages of this Act. The organization certificate shall be acknowledged before a judge or clerk of some court of record, or notary public, and shall be, together with the acknowledgment thereof, authenticated by the seal of such court or notary, transmitted to the Farm Loan Commissioner, who shall record and carefully preserve the same in his office, where it shall be at all times open to public inspection.

Organization certificate must be duly acknowledged, authenticated, and forwarded to commissioner to be recorded and filed; open to public inspection.

The Federal Farm Loan Board is authorized to direct such changes in or additions to any such organization certificate, not inconsistent with this Act, as it may deem necessary or expedient.

Board may order changes in organization certificate.

Upon duly making and filing such organi-

Thus made a body corporate.

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	zation certificate the bank shall become, as from the date of the execution of its organization certificate, a body corporate, and as such, and in the name designated in the organization certificate, it shall have power—
With powers to—	
Adopt and use seal.	First. To adopt and use a corporate seal.
Have succession.	Second. To have succession until it is dissolved by Act of Congress or under the provisions of this Act.
Contract.	Third. To make contracts.
Sue and defend.	Fourth. To sue and be sued, complain, interplead, and defend, in any court of law or equity, as fully as natural persons.
Elect officers and directors.	Fifth. To elect or appoint directors, and by its board of directors to elect a president and a vice president, appoint a secretary and a treasurer and other officers and employees, define their duties, require bonds of them, and fix the penalty thereof; by action of its board of directors dismiss such officers and employees, or any of them, at pleasure and appoint others to fill their places.
Require bonds.	
Dismiss officers and employees.	
Make by-laws; provide method for stock transfer, election of directors, and its general business conducted.	Sixth. To prescribe, by its board of directors, subject to the supervision and regulation of the Federal Farm Loan Board, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors elected, its officers elected or appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

Seventh. To exercise, by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business herein described.

Exercise incidental powers necessary for conduct of business.

After the subscriptions to stock in any Federal land bank by national farm-loan associations, hereinafter authorized, shall have reached the sum of \$100,000, the officers and directors of said land bank shall be chosen as herein provided and shall, upon becoming duly qualified, take over the management of said land bank from the temporary officers selected under this section.

When \$100,000 stock is subscribed by farm-loan associations, permanent officers and directors to be chosen and take over management.

The board of directors of every Federal land bank shall be selected as hereinafter specified and shall consist of nine members, each holding office for three years. Six of said directors shall be known as local directors, and shall be chosen by and be representative of national farm-loan associations; and the remaining three directors shall be known as district directors, and shall be appointed by the Federal Farm Loan Board and represent the public interest.

Permanent directors, nine in number, six elected by farm-loan associations, three appointed by Farm Loan Board.

At least two months before each election the Farm Loan Commissioner shall notify each national farm-loan association in writing that such election is to be held, giving the number of directors to be elected for its district, and requesting each association to nominate one candidate for each director to

Notice of election of directors and method of nominations prescribed.

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be elected. Within ten days of the receipt of such notice each association shall forward its nominations to said Farm Loan Commissioner. Said commissioner shall prepare a list of candidates for local directors consisting of the twenty persons securing the highest number of votes from national farm-loan associations making such nominations.

Casting votes for local directors.

At least one month before said election said Farm Loan Commissioner shall mail to each national farm-loan association the list of candidates. The directors of each national farm-loan association shall cast the vote of said association for as many candidates on said list as there are vacancies to be filled, and shall forward said vote to the Farm Loan Commissioner within ten days after said list of candidates is received by them. The candidates receiving the highest number of votes shall be elected as local directors. In case of a tie the Farm Loan Commissioner shall determine the choice.

Farm Loan Board designates district directors; fixes terms of office.

The Federal Farm Loan Board shall designate one of the district directors to serve for three years and to act as chairman of the board of directors. It shall designate one of said directors to serve for a term of two years and one to serve for a term of one year. After the first appointments each district director shall be appointed for a term of three years.

Land bank designates respective terms of office for local directors.

At the first regular meeting of the board of directors of each Federal land bank it shall

be the duty of the local directors to designate two of the local directors whose term of office shall expire in one year from the date of such meeting, two whose term of office shall expire in two years from said date, and two whose term of office shall expire in three years from said date. Thereafter every local director of a Federal land bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the board of directors shall be filled for the unexpired term in the manner provided for the original selection of such directors.

Regular term after first designation, three years.

Vacancies filled for unexpired term by election.

Directors of Federal land banks shall have been for at least two years residents of the district for which they are appointed or elected and at least one district director shall be experienced in practical farming and actually engaged at the time of his appointment in farming operations within the district. No director of a Federal land bank shall, during his continuance in office, act as an officer, director, or employee of any other institution, association, or partnership engaged in banking or in the business of making or selling land-mortgage loans.

Directors must be residents of district two years previous to election; one must be engaged in farming.

Cannot be connected with other banking or mortgage selling institution or partnership.

Directors of Federal land banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, to be paid by the respective Federal land banks. Any com-

Directors allowed necessary expenses in addition to compensation.

Compensation subject to approval of Farm Loan Board.

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pensation that may be provided by boards of directors of Federal land banks for directors, officers, or employees shall be subject to the approval of the Federal Farm Loan Board.

CAPITAL STOCK OF FEDERAL LAND BANKS

Minimum capital stock \$750,000.

Board to prescribe conditions of payment; may reject any subscription.

Par value of shares \$5; may be subscribed by anyone.

Stock held by farm-loan associations may not be transferred or hypothecated.

Stock held by United States receives no dividends.

No stock allowed any vote except that held by United States and farm-loan associations, they being entitled to one vote on each share.

SEC. 5. That every Federal land bank shall have, before beginning business, a subscribed capital of not less than \$750,000. The Federal Farm Loan Board is authorized to prescribe the times and conditions of the payment of subscriptions to capital stock, to reject any subscription in its discretion, and to require subscribers to furnish adequate security for the payment thereof.

The capital stock of each Federal land bank shall be divided into shares of \$5 each, and may be subscribed for and held by any individual, firm, or corporation, or by the Government of any State or of the United States.

Stock held by national farm-loan associations shall not be transferred or hypothecated, and the certificates therefor shall so state.

Stock owned by the Government of the United States in Federal land banks shall receive no dividends, but all other stock shall share in dividend distributions without preference. Each national farm-loan association and the Government of the United States shall be entitled to one vote for each

share of stock held by it in deciding all questions at meetings of shareholders, and no other shareholder shall be permitted to vote. Stock owned by the United States shall be voted by the Farm Loan Commissioner, as directed by the Federal Farm Loan Board.

United States stock voted by commissioner as directed by board.

It shall be the duty of the Federal Farm Loan Board, as soon as practicable after the passage of this Act, to open books of subscription for the capital stock of a Federal land bank in each Federal land-bank district. If within thirty days after the opening of said books any part of the minimum capitalization of \$750,000 herein prescribed for Federal land banks shall remain unsubscribed, it shall be the duty of the Secretary of the Treasury to subscribe the balance thereof on behalf of the United States, said subscription to be subject to call in whole or in part by the board of directors of said land bank upon thirty days' notice, with the approval of the Federal Farm Loan Board; and the Secretary of the Treasury is hereby authorized and directed to take out shares corresponding to the unsubscribed balance as called, and to pay for the same out of any moneys in the Treasury not otherwise appropriated. Thereafter no stock shall be issued except as hereinafter provided.

Books of subscription opened by board.

After 30 days United States subscribes all of minimum capital not otherwise taken.

Subscription subject to call after 30 days' notice.

Secretary of Treasury to take shares and pay for same.

No increase of stock thereafter except to borrowers on mortgage loans.

After the subscriptions to capital stock by national farm-loan associations shall amount to \$750,000 in any Federal land bank, said bank shall apply semiannually to the pay-

Original stock retired at par when farm-loan associations subscribe \$750,000.

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ment and retirement of the shares of stock which were issued to represent the subscriptions to the original capital twenty-five per centum of all sums thereafter subscribed to capital stock until all such original capital stock is retired at par.

One-fourth of stock payments by farm-loan associations must be held in quick assets.

At least twenty-five per centum of that part of the capital of any Federal land bank for which stock is outstanding in the name of national farm-loan associations shall be held in quick assets, and may consist of cash in the vaults of said land bank, or in deposits in member banks of the Federal reserve system, or in readily marketable securities which are approved under rules and regulations of the Federal Farm Loan Board: *Provided*, That not less than five per centum of such capital shall be invested in United States Government bonds.

Five per cent of such capital invested in United States bonds.

GOVERNMENT DEPOSITARIES

Land banks may be designated as public depositaries, except for custom receipts; and employed as United States financial agents.

SEC. 6. That all Federal land banks and joint-stock land banks organized under this Act, when designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, except receipts from customs, under such regulations as may be prescribed by said Secretary; and they may also be employed as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public money and financial agents of the Govern-

ment, as may be required of them. And the Secretary of the Treasury shall require of the Federal land banks and joint - stock land banks thus designated satisfactory security, by the deposit of United States bonds or otherwise, for the safekeeping and prompt payment of the public money deposited with them, and for the faithful performance of their duties as financial agents of the Government. No Government funds deposited under the provisions of this section shall be invested in mortgage loans or farm-loan bonds.

Satisfactory security required of land banks thus designated.

No public deposits may be invested in mortgage loans or in farm-loan bonds.

NATIONAL FARM-LOAN ASSOCIATIONS

SEC. 7. That corporations, to be known as national farm-loan associations, may be organized by persons desiring to borrow money on farm-mortgage security under the terms of this Act. Such persons shall enter into articles of association which shall specify in general terms the object for which the association is formed and the territory within which its operations are to be carried on, and which may contain any other provision, not inconsistent with law, which the association may see fit to adopt for the regulation of its business and the conduct of its affairs. Said articles shall be signed by the persons uniting to form the association, and a copy thereof shall be forwarded to the Federal land bank for the district, to be filed and preserved in its office.

Organization farm-loan associations.

Articles of association to state object of formation and territory served.

May contain any other provision not inconsistent with law.

Signed copy must be forwarded to Federal land bank and filed.

Associations elect not less than five directors, in same manner as national banks.

Directors hold office one year.

Choose a secretary-treasurer, fix his compensation, elect other officers and loan committee of three.

Serve without compensation, unless Farm Loan Board approves otherwise.

Must be residents of territory served; must be shareholders.

Duties of secretary-treasurer specified; act as custodian of funds; pay over proceeds of loans; meet all obligations under orders of board and in accordance with by-laws.

Every national farm-loan association shall elect, in the manner prescribed for the election of directors of national banking associations, a board of not less than five directors, who shall hold office for the same period as directors of national banking associations. It shall be the duty of said board of directors to choose in such manner as they may prefer a secretary-treasurer, who shall receive such compensation as said board of directors shall determine. The board of directors shall elect a president, a vice president, and a loan committee of three members.

The directors and all officers except the secretary-treasurer shall serve without compensation, unless the payment of salaries to them shall be approved by the Federal Farm Loan Board. All officers and directors except the secretary-treasurer shall, during their term of office, be bona fide residents of the territory within which the association is authorized to do business, and shall be shareholders of the association.

It shall be the duty of the secretary-treasurer of every national farm-loan association to act as custodian of its funds and to deposit the same in such bank as the board of directors may designate, to pay over to borrowers all sums received for their account from the Federal land bank upon first mortgage as in this Act prescribed, and to meet all other obligations of the association, sub-

ject to the orders of the board of directors and in accordance with the by-laws of the association. It shall be the duty of the secretary-treasurer, acting under the direction of the national farm-loan association, to collect, receipt for, and transmit to the Federal land-bank payments of interest, amortization installments, or principal arising out of loans made through the association. He shall be the custodian of the securities, records, papers, certificates of stock, and all documents relating to or bearing upon the conduct of the affairs of the association. He shall furnish a suitable surety bond to be prescribed and approved by the Federal Farm Loan Board for the proper performance of the duties imposed upon him under this Act, which shall cover prompt collection and transmission of funds. He shall make a quarterly report to the Federal Farm Loan Board upon forms to be provided for that purpose. Upon request from said board said secretary-treasurer shall furnish information regarding the condition of the national farm-loan association for which he is acting, and he shall carry out all duly authorized orders of said board. He shall assure himself from time to time that the loans made through the national farm-loan association of which he is an officer are applied to the purposes set forth in the application of the borrower as approved, and shall forthwith report to the land bank of the dis-

Pay over all collections for Federal land bank.

Custodian of securities, records, and all documents.

Furnish bond for performance of duties.

Make quarterly report.

Furnish statement of condition.

Must satisfy himself proceeds of loans are properly applied.

THE FEDERAL FARM-LOAN

Report failure or noncompliance with application by borrower; ascertain and report delinquent taxes on mortgaged land.

strict any failure of any borrower to comply with the terms of his application or mortgage. He shall also ascertain and report to said bank the amount of any delinquent taxes on land mortgaged to said bank and the name of the delinquent.

Expenses and salary of secretary - treasurer paid by association.

The reasonable expenses of the secretary-treasurer, the loan committee, and other officers and agents of national farm-loan associations, and the salary of the secretary-treasurer, shall be paid from the general funds of the association, and the board of directors is authorized to set aside such sums as it shall deem requisite for that purpose and for other expenses of said association. When no such funds are available, the board of directors may levy an assessment on members in proportion to the amount of stock held by each, which may be repaid as soon as funds are available, or it may secure an advance from the Federal land bank of the district, to be repaid with interest at the rate of six per centum per annum, from dividends belonging to said association. Said Federal land bank is hereby authorized to make such advance and to deduct such repayment.

Directors may levy assessment on members if necessity arises.

May secure advance from Federal land bank in anticipation of dividends.

Ten persons owning land may form a farm-loan association.

Organize subject to specified requirements having directors not

Ten or more natural persons who are the owners, or about to become the owners, of farm land qualified as security for a mortgage loan under section twelve of this Act, may unite to form a national farm-loan association. They shall organize subject to the re-

quirements and the conditions specified in this section and in section four of this Act, so far as the same may be applicable: *Provided*, That the board of directors may consist of five members only, and instead of a secretary and a treasurer there shall be a secretary-treasurer, who need not be a shareholder of the association.

When the articles of association are forwarded to the Federal land bank of the district as provided in this section, they shall be accompanied by the written report of the loan committee as required in section ten of this Act, and by an affidavit stating that each of the subscribers is the owner, or is about to become the owner, of farm land qualified under section twelve of this Act as the basis of a mortgage loan; that the loan desired by each person is not more than \$10,000, nor less than \$100, and the aggregate of the desired loan is not less than \$20,000; that said affidavit is accompanied by a subscription to stock in the Federal land bank equal to five per centum of the aggregate sum desired on mortgage loans; and that a temporary organization of said association has been formed by the election of a board of directors, a loan committee, and a secretary-treasurer who subscribes to said affidavit, giving his residence and post-office address.

Upon receipt of such articles of association, with the accompanying affidavit and stock

less than five; combine secretary and treasurer in one individual, who need not be shareholder.

Report of loan committee must accompany articles of association, with affidavit of secretary-treasurer that applicants own lands available for mortgage loans.

Loans cannot exceed \$10,000 to one person, nor aggregate less than \$20,000 with original application, so that initial subscription to stock of land bank cannot be less than \$1,000. Application must state temporary organization has been effected.

Appraiser then sent to investigate by directors, who determine if charter ought to be granted.

THE FEDERAL FARM-LOAN

subscription, the directors of said Federal land bank shall send an appraiser to investigate the solvency and character of the applicants and the value of their lands, and shall then determine whether in their judgment a charter should be granted to such association.

Application and affidavit must be forwarded to Farm Loan Board.

They shall forward such articles of association and the accompanying affidavit to the Federal Farm Loan Board with their recommendation. If said recommendation is unfavorable, the charter shall be refused.

Board may grant charter designating territory and forward to applicants, or may refuse same.

If said recommendation is favorable, the Federal Farm Loan Board shall thereupon grant a charter to the applicants therefor, designating the territory in which such association may make loans, and shall forward said charter to said applicants through said Federal land bank: *Provided*, That said Federal Farm Loan Board may for good cause shown in any case refuse to grant a charter.

Sums to be loaned members may be received after charter is granted.

Upon receipt of its charter such national farm-loan association shall be authorized and empowered to receive from the Federal land bank of the district sums to be loaned to its members under the terms and conditions of this Act.

Association must subscribe to stock of Federal land bank to an amount equal to 5 per cent of loans applied for.

Whenever any national farm-loan association shall desire to secure for any member a loan on first mortgage from the Federal land bank of its district it shall subscribe for capital stock of said land bank to the amount of five per centum of such loan, such subscription to

be paid in cash upon the granting of the loan by said land bank. Such capital stock shall be held by said land bank as collateral security for the payment of said loan, but said association shall be paid any dividends accruing and payable on said capital stock while it is outstanding. Such stock may, in the discretion of the directors, and with the approval of the Federal Farm Loan Board, be paid off at par and retired, and it shall be so paid off and retired upon full payment of the mortgage loan. In such case the national farm-loan association shall pay off at par and retire the corresponding shares of its stock which were issued when said land-bank stock was issued. The capital stock of a Federal land bank shall not be reduced to an amount less than five per centum of the principal of the outstanding farm-loan bonds issued by it.

Stock retained as collateral security, but dividends thereon to be paid association as declared.

Stock may be paid off at par, and must be when loans are paid.

Association must retire and pay off corresponding stock at par.

Federal land-bank stock cannot be reduced to less than 5 per cent of outstanding bonds.

CAPITAL STOCK OF NATIONAL FARM-LOAN ASSOCIATIONS

SEC. 8. That the shares in national farm-loan associations shall be of the par value of \$5 each.

Par value of shares \$5.

Every shareholder shall be entitled to one vote on each share of stock held by him at all elections of directors and in deciding all questions at meetings of shareholders: *Provided*, That the maximum number of votes which may be cast by any one shareholder shall be twenty.

Each share 1 vote, but one shareholder limited to 20 votes.

Members and shareholders confined to borrowers.

Every applicant for loan must apply for membership and subscribe to stock in association to extent of 5 per cent of desired loan.

Loan granted and stock paid for, applicant becomes member and shareholder.

Stock retired when loan is paid off; in meanwhile is held as collateral security, borrower receiving dividends declared thereon.

Capital stock to be increased in proportion as loans are made.

Increase must be stated in quarterly reports to board.

No persons but borrowers on farm-land mortgages shall be members or shareholders of national farm-loan associations. Any person desiring to borrow on farm-land mortgage through a national farm-loan association shall make application for membership and shall subscribe for shares of stock in such farm-loan association to an amount equal to five per centum of the face of the desired loan, said subscription to be paid in cash upon the granting of the loan. If the application for membership is accepted and the loan is granted, the applicant shall, upon full payment therefor, become the owner of one share of capital stock in said loan association for each \$100 of the face of his loan, or any major fractional part thereof. Said capital stock shall be paid off at par and retired upon full payment of said loan. Said capital stock shall be held by said association as collateral security for the payment of said loan, but said borrower shall be paid any dividends accruing and payable on said capital stock while it is outstanding.

Every national farm-loan association formed under this Act shall by its articles of association provide for an increase of its capital stock from time to time for the purpose of securing additional loans for its members and providing for the issue of shares to borrowers in accordance with the provisions of this Act. Such increases shall be included

in the quarterly reports to the Federal Farm Loan Board.

NATIONAL FARM-LOAN ASSOCIATIONS.—
SPECIAL PROVISIONS

SEC. 9. That any person whose application for membership is accepted by a national farm-loan association shall be entitled to borrow money on farm-land mortgage upon filing his application in accordance with section eight and otherwise complying with the terms of this Act whenever the Federal land bank of the district has funds available for that purpose, unless said land bank or the Federal Farm Loan Board shall, in its discretion, otherwise determine.

Every member entitled to borrow, when funds are available, unless land bank or Farm Loan Board otherwise determine.

Any person desiring to secure a loan through a national farm-loan association under the provisions of this Act may, at his option, borrow from the Federal land bank through such association the sum necessary to pay for shares of stock subscribed for by him in the national farm-loan association, such sum to be made a part of the face of the loan and paid off in amortization payments: *Provided, however,* That such addition to the loan shall not be permitted to increase said loan above the limitation imposed in subsection fifth of section twelve.

Borrower may pay for stock from proceeds of loan granted; to be repaid by amortization—

Provided amount of loan does not exceed maximum limit.

Subject to rules and regulations prescribed by the Federal Farm Loan Board, any farm-loan association shall be entitled to re-

Associations may retain from interest collected commission not exceeding one eighth of 1 per cent semiannually.

Deducted from future dividends on stock held in Federal land bank; may borrow from bank not exceeding one fourth of stock holdings.

tain as a commission from each interest payment on any loan indorsed by it an amount to be determined by said board not to exceed one eighth of one per centum semiannually upon the unpaid principal of said loan, any amounts so retained as commissions to be deducted from dividends payable to such farm-loan association by the Federal land bank, and to make application to the land bank of the district for loans not exceeding in the aggregate one fourth of its total stock holdings in said land bank. The Federal land banks shall have power to make such loans to associations applying therefor and to charge interest at a rate not exceeding six per centum per annum.

Shareholders of associations personally liable for its debts to extent of stock severally held.

Shareholders of every national farm-loan association shall be held individually responsible, equally and ratably, and not for another, for all contracts, debts, and engagements of such association to the extent of the amount of stock owned by them at the par value thereof, in addition to the amount paid in and represented by their shares.

Any natural person owning or about to own qualified land may become member upon approval of directors and borrow on mortgage, upon subscribing to stock to extent of 5 per cent of desired loan.

After a charter has been granted to a national farm-loan association, any natural person who is the owner, or about to become the owner, of farm land qualified under section twelve of this Act as the basis of a mortgage loan, and who desires to borrow on a mortgage of such farm land, may become a member of the association by a two-thirds

vote of the directors upon subscribing for one share of the capital stock of such association for each \$100 of the face of his proposed loan or any major fractional part thereof. He shall at the same time file with the secretary-treasurer his application for a mortgage loan, giving the particulars required by section twelve of this Act.

APPRAISAL

SEC. 10. That whenever an application for a mortgage loan is made through a national farm-loan association, the loan committee provided for in section seven of this Act, shall forthwith make, or cause to be made, such investigation as it may deem necessary as to the character and solvency of the applicant, and the sufficiency of the security offered, and cause written report to be made of the result of such investigation, and shall, if it concurs in such report, approve the same in writing. No loan shall be made unless the report is favorable, and the loan committee is unanimous in its approval thereof.

The written report required in the preceding paragraph shall be submitted to the Federal land bank, together with the application for the loan, and the directors of said land bank shall examine said written report when they pass on the loan application which it accompanies, but they shall not be bound by said appraisal.

Application for loans must be referred to loan committee.

Loan committee, or some person designated by it, must examine land, make appraisal and written report.

Directors cannot approve loan unless committee's report is favorable.

Report and appraisal submitted to land bank directors.

Land bank must refer application and report to land-bank appraiser for investigation and report, which must be favorable if loan is made.

Before any mortgage loan is made by any Federal land bank, or joint-stock land bank, it shall refer the application and written report of the loan committee to one or more of the land-bank appraisers appointed under the authority of section three of this Act, and such appraiser or appraisers shall investigate and make a written report upon the land offered as security for said loan. No such loan shall be made by said land bank unless said written report is favorable.

Appraisal forms prescribed by Farm Loan Board.

Forms for appraisal reports for farm-loan associations and land banks shall be prescribed by the Federal Farm Loan Board.

Farm Loan Board to direct land-bank appraisers as to investigation and examination.

Land-bank appraisers shall make such examinations and appraisals and conduct such investigations, concerning farm-loan bonds and first mortgages, as the Federal Farm Loan Board shall direct.

Borrower not eligible as appraiser, but may be member of loan committee where not interested.

No borrower under this Act shall be eligible as an appraiser under this section, but borrowers may act as members of a loan committee in any case where they are not personally interested in the loan under consideration. When any member of a loan committee or of a board of directors is interested, directly or indirectly, in a loan, a majority of the board of directors of any national farm-loan association shall appoint a substitute to act in his place in passing upon such loan.

Substitute on loan committee may be appointed by directors.

POWERS OF NATIONAL FARM-LOAN
ASSOCIATIONS

SEC. 11. That every national farm - loan association shall have power:

Farm - loan association—

First. To indorse, and thereby become liable for the payment of, mortgages taken from its shareholders by the Federal land bank of its district.

May indorse mortgages.

Second. To receive from the Federal land bank of its district funds advanced by said land bank, and to deliver said funds to its shareholders on receipt of first mortgages qualified under section twelve of this Act.

Receive funds from land bank.
Pay over funds to borrowers.

Third. To fix reasonable initial charges to be made against applicants for loans and to borrowers in order to meet the necessary expenses of the association: *Provided*, That such charges shall not exceed amounts to be fixed by the Farm Loan Board, and shall in no case exceed one per centum of the amount of the loan applied for; to acquire and dispose of property, real and personal, that may be necessary or convenient for the transaction of its business.

Fix charges by farm-loan association; own property required for its business.

Fourth. To issue certificates against deposits of current funds bearing interest for not longer than one year at not to exceed four per centum per annum after six days from date, convertible into farm-loan bonds when presented at the Federal land bank of the district in the amount of \$25 or any multiple

May issue certificates bearing interest convertible into farm-loan bonds.

THE FEDERAL FARM-LOAN

Funds thus arising to be invested in mortgages or farm-loan bonds by Federal land bank.

thereof. Such deposits, when received, shall be forthwith transmitted to said land bank, and be invested by it in the purchase of farm-loan bonds issued by a Federal land bank or in first mortgages as defined by this Act.

RESTRICTIONS ON LOANS BASED ON FIRST MORTGAGES

SEC. 12. That no Federal land bank organized under this Act shall make loans except upon the following terms and conditions:

Loans must be secured by first mortgages on farm lands within district; joint stock banks exempted.

First. Said loans shall be secured by duly recorded first mortgages on farm land within the land-bank district in which the bank is situated.

Mortgages must contain provision for repayment or amortization plan.

Second. Every such mortgage shall contain an agreement providing for the repayment of the loan on an amortization plan by means of a fixed number of annual or semi-annual installments sufficient to cover, first, a charge on the loan at a rate not exceeding the interest rate in the last series of farm-loan bonds issued by the land bank making the loan; second, a charge for administration and profits at a rate not exceeding one per centum per annum on the unpaid principal, said two rates combined constituting the interest rate on the mortgage; and, third, such amounts to be applied on the principal as will extinguish the debt within an agreed period, not less than five years nor more than forty years: *Provided*, That after five years from

Interest rate on mortgage cannot exceed by more than 1 per cent per annum interest paid on farm-loan bonds.

Installment to include sufficient amount to extinguish debt after expiration of 5 years, but within 40 years, at option of borrower.

the date upon which a loan is made the mortgagor may, upon any regular installment date, make, in advance, any number of payments or any portion thereof on account of the principal of his loan as provided by his contract or pay the entire principal of such loan, under the rules and regulations of the Federal Farm Loan Board: *And provided further*, That before the first issues of farm-loan bonds by any land bank the interest rate on mortgages may be determined in the discretion of said land bank, subject to the provisions and limitations of this Act.

Principal may be paid as desired after 5 years with any installment.

Interest rate on mortgages made prior to issue of farm-loan bonds determined by land bank.

Third. No loan on mortgage shall be made under this Act at a rate of interest exceeding six per centum per annum, exclusive of amortization payments.

Interest charged on mortgages must not exceed 6 per cent per annum.

Fourth. Such loans may be made for the following purposes and for no other.

Proceeds of loans restricted; joint stock banks exempted.

(a) To provide for the purchase of land for agricultural uses.

Buy land for agricultural uses.

(b) To provide for the purchase of equipment, fertilizers, and live stock necessary for the proper and reasonable operation of the mortgaged farm; the term "equipment" to be defined by the Federal Farm Loan Board.

Buy equipment, fertilizers, live stock.

(c) To provide buildings and for the improvement of farm lands; the term "improvement" to be defined by the Federal Farm Loan Board.

Provide buildings and improvements.

(d) To liquidate indebtedness of the owner of the land mortgaged incurred for agri-

Discharge indebtedness incurred for agricultural purposes.

cultural purposes, or incurred prior to the organization of the first farm-loan association established in and for the county in which the land is situated.

Mortgage loans must not exceed 50 per cent of appraised value of lands and 20 per cent of permanent improvements thereon, latter to be insured.

Appraisal determined by agricultural value and earning power of lands.

Fifth. No such loan shall exceed fifty per centum of the value of the land mortgaged and twenty per centum of the value of the permanent, insured improvements thereon, said value to be ascertained by appraisal, as provided in section ten of this Act. In making said appraisal the value of the land for agricultural purposes shall be the basis of appraisal and the earning power of said land shall be a principal factor.

Reappraisal.

Loans granted for smaller amounts than applied for without new appraisal.

A reappraisal may be permitted at any time in the discretion of the Federal land bank, and such additional loan may be granted as such reappraisal will warrant under the provisions of this paragraph. Whenever the amount of the loan applied for exceeds the amount that may be loaned under the appraisal as herein limited, such loan may be granted to the amount permitted under the terms of this paragraph without requiring a new application or appraisal.

Borrowers must engage in cultivation of land mortgaged.

Joint stock banks exempted.

Sixth. No such loan shall be made to any person who is not at the time, or shortly to become, engaged in the cultivation of the farm mortgaged. In case of the sale of the mortgaged land, the Federal land bank may permit said mortgage and the stock interests of the vendor to be assumed by the purchaser,

Mortgages assumed by a purchaser.

In case of the death of the mortgagor, his heir or heirs, or his legal representative or representatives, shall have the option, within sixty days of such death, to assume the mortgage and stock interests of the deceased.

In case of death legal representatives of borrower may assume his obligations.

Seventh. The amount of loans to any one borrower shall in no case exceed a maximum of \$10,000, nor shall any loan be for a less sum than \$100.

\$10,000 maximum and \$100 minimum loan to any borrower.

Joint stock banks exempted.

Eighth. Every applicant for a loan under the terms of this Act shall make application on a form to be prescribed for that purpose by the Federal Farm Loan Board, and such applicant shall state the objects to which the proceeds of said loan are to be applied, and shall afford such other information as may be required.

Applicant must state on prescribed forms purpose for which proceeds of loan are to be used.

Ninth. Every borrower shall pay simple interest on defaulted payments at the rate of eight per centum per annum, and by express covenant in his mortgage deed shall undertake to pay when due all taxes, liens, judgments, or assessments which may be lawfully assessed against the land mortgaged. Taxes, liens, judgments, or assessments not paid when due, and paid by the mortgagee, shall become a part of the mortgage debt and shall bear simple interest at the rate of eight per centum per annum. Every borrower shall undertake to keep insured to the satisfaction of the Federal Farm Loan Board all buildings the value of which was a factor in determining

Defaulted payments carry 8 per cent interest.

Borrower must undertake to pay all taxes and other liens.

If unpaid, become part of mortgage debt and bear 8 per cent interest.

Buildings must be kept insured.

THE FEDERAL FARM-LOAN

Losses payable to mortgagee, but mortgagor may require insurance money used for rebuilding.

If proceeds of loan expended otherwise than agreed (joint-stock banks being exempted).

If borrower be in default.

Loans may be collected.

Part proceeds may be used to purchase stock required for membership.

Exercise of unauthorized power by lender cannot impair validity of mortgage.

the amount of the loan. Insurance shall be made payable to the mortgagee as its interest may appear at time of loss, and, at the option of the mortgagor and subject to general regulations of the Federal Farm Loan Board, sums so received may be used to pay for reconstruction of the buildings destroyed.

Tenth. Every borrower who shall be granted a loan under the provisions of this Act shall enter into an agreement, in form and under conditions to be prescribed by the Federal Farm Loan Board, that if the whole or any portion of his loan shall be expended for purposes other than those specified in his original application, or if the borrower shall be in default in respect to any condition or covenant of the mortgage, the whole of said loan shall, at the option of the mortgagee, become due and payable forthwith: *Provided*, That the borrower may use part of said loan to pay for his stock in the farm-loan association, and the land bank holding such mortgage may permit said loan to be used for any purpose specified in subsection fourth of this section.

Eleventh. That no loan or the mortgage securing the same shall be impaired or invalidated by reason of the exercise of any power by any Federal land bank or national farm-loan association in excess of powers herein granted or any limitations thereon.

Funds transmitted to farm-loan associa-

tions by Federal land banks to be loaned to its members shall be in current funds, or farm-loan bonds, at the option of the borrower.

Borrower may elect to receive proceeds of loan in farm-loan bonds.

POWERS OF FEDERAL LAND BANKS

SEC. 13. That every Federal land bank shall have power, subject to the limitations and requirements of this Act—

Federal land banks; powers—

First. To issue, subject to the approval of the Federal Farm Loan Board, and to sell farm-loan bonds of the kinds authorized in this Act, to buy the same for its own account, and to retire the same at or before maturity.

May issue and buy and sell farm-loan bonds; prepay same.

Second. To invest such funds as may be in its possession in the purchase of qualified first mortgages on farm lands situated within the Federal land-bank district within which it is organized or for which it is acting.

May invest in mortgages on farm lands situated in district.

Third. To receive and to deposit in trust with the farm-loan registrar for the district, to be by him held as collateral security for farm-loan bonds, first mortgages upon farm land qualified under section twelve of this Act, and to empower national farm-loan associations, or duly authorized agents, to collect and immediately pay over to said land banks the dues, interest, amortization installments, and other sums payable under the terms, conditions, and covenants of the mortgages and of the bonds secured thereby.

May hypothecate mortgages with registrar, as security for bond issue.

Fourth. To acquire and dispose of—

May utilize associations and agents to collect and remit payments thereon.

THE FEDERAL FARM-LOAN

May buy, sell, or lease property required for its business.

No real estate acquired in satisfaction or part payment of debts can be held longer than five years without special authority from Farm Loan Board.

May deposit with any member bank and receive interest thereon.

May accept deposits from farm-loan associations.

May borrow money.

May deal in United States bonds.

May charge applicants for loans actual expenses incurred in connection with appraisal and determination of title.

(a) Such property, real or personal, as may be necessary or convenient for the transaction of its business, which, however, may be in part leased to others for revenue purposes.

(b) Parcels of land acquired in satisfaction of debts or purchased at sales under judgments, decrees, or mortgages held by it. But no such bank shall hold title and possession of any real estate purchased or acquired to secure any debt due to it, for a longer period than five years, except with the special approval of the Federal Farm Loan Board in writing.

Fifth. To deposit its securities, and its current funds subject to check, with any member bank of the Federal Reserve System, and to receive interest on the same as may be agreed.

Sixth. To accept deposits of securities or of current funds from national farm-loan associations holding its shares, but to pay no interest on such deposits.

Seventh. To borrow money, to give security therefor, and to pay interest thereon.

Eighth. To buy and sell United States bonds.

Ninth. To charge applicants for loans and borrowers, under rules and regulations promulgated by the Federal Farm Loan Board, reasonable fees not exceeding the actual cost of appraisal and determination of title. Legal fees and recording charges imposed by law in

the States where the land to be mortgaged is located may also be included in the preliminary costs of negotiating mortgage loans. The borrower may pay such fees and charges or he may arrange with the Federal land bank making the loan to advance the same, in which case said expenses shall be made a part of the face of the loan and paid off in amortization payments. Such addition to the loan shall not be permitted to increase said loan above the limitations provided in section twelve.

Borrower may require such expenses to be included as part of loan and paid off by amortization.

RESTRICTIONS ON FEDERAL LAND BANKS

SEC. 14. That no Federal land bank shall have power—

First. To accept deposits of current funds payable upon demand except from its own stockholders, or to transact any banking or other business not expressly authorized by the provisions of this Act.

Cannot accept deposits except from stockholders or transact business not expressly authorized.

Second. To loan on first mortgage except through national farm-loan associations as provided in section seven and section eight of this Act, or through agents as provided in section fifteen.

Loans made exclusively through associations or agents.

Third. To accept any mortgages on real estate except first mortgages created subject to all limitations imposed by section twelve of this Act, and those taken as additional security for existing loans.

Only first mortgages accepted, unless existing loans require additional security.

Fourth. To issue or obligate itself for outstanding farm-loan bonds in excess of twenty

Farm-loan bonds limited to twenty times capital and surplus.

Receipt of mortgages from farm-loan association limited to twenty times its holdings of stock.

times the amount of its capital and surplus, or to receive from any national farm-loan association additional mortgages when the principal remaining unpaid upon mortgages already received from such association shall exceed twenty times the amount of its capital stock owned by such association.

No commission or charge except specifically authorized.

Fifth. To demand or receive, under any form or pretense, any commission or charge not specifically authorized in this Act.

AGENTS OF FEDERAL LAND BANKS

Agents of land banks may be established after one year.

SEC. 15. That whenever, after this Act shall have been in effect one year, it shall appear to the Federal Farm Loan Board that national farm-loan associations have not been formed, and are not likely to be formed, in any locality, because of peculiar local conditions, said board may, in its discretion, authorize Federal land banks to make loans on farm lands through agents approved by said board.

Loans through agents subject to same conditions as to associations. Borrowers through agencies must purchase stock in Federal land bank to extent of 5 per cent of loan.

Such loans shall be subject to the same conditions and restrictions as if the same were made through national farm-loan associations, and each borrower shall contribute five per centum of the amount of his loan to the capital of the Federal land bank, and shall become the owner of as much capital stock of the land bank as such contribution shall warrant.

No agent other than a duly incorporated

bank, trust company, mortgage company, or savings institution, chartered by the State in which it has its principal office, shall be employed under the provisions of this section.

Agencies limited to banking corporations chartered by State.

Federal land banks may pay to such agents the actual expense of appraising the land offered as security for a loan, examining and certifying the title thereof, and making, executing, and recording the mortgage papers; and in addition may allow said agents not to exceed one-half of one per centum per annum upon the unpaid principal of said loan, such commission to be deducted from dividends payable to the borrower on his stock in the Federal land bank.

Expenses connected with making loans may be paid to agents; also commission, which must be deducted from borrower's future dividends.

Actual expenses paid to agents under the provisions of this section shall be added to the face of the loan and paid off in amortization payments subject to the limitations provided in subsection ninth of section thirteen of this Act.

Expenses paid agents become part of loan; paid off by amortization.

Said agents, when required by the Federal land banks, shall collect and forward to such banks without charge all interest and amortization payments on loans indorsed by them.

Agents must collect and remit payments on loans, when required, without charge.

Any agent negotiating any such loan shall indorse the same and become liable for the payment thereof, and for any default by the mortgagor, on the same terms and under the same penalties as if the loan had been originally made by said agent as principal and

Agents must indorse and become liable upon mortgages received from them, such mortgages not to exceed ten times agents' capital and surplus.

sold by said agent to said land bank, but the aggregate of the unpaid principal of mortgage loans received from any such agent shall not exceed ten times its capital and surplus.

Agencies in any district may be discontinued by Farm Loan Board.

If at any time the district represented by any agent under the provisions of this section shall, in the judgment of the Federal Farm Loan Board, be adequately served by national farm-loan associations, no further loans shall be negotiated therein by agents under this section.

JOINT-STOCK LAND BANKS

Joint-stock land banks formed by 10 or more persons under Federal land-bank organization requirements.

SEC. 16. That corporations, to be known as joint-stock land banks, for carrying on the business of lending on farm-mortgage security and issuing farm-loan bonds, may be formed by any number of natural persons not less than ten. They shall be organized subject to the requirements and under the conditions set forth in section four of this Act, so far as the same may be applicable: *Provided*, That the board of directors of every joint-stock land bank shall consist of not less than five members.

Minimum number of directors five.

Shareholders severally liable personally for indebtedness of bank to extent of stock holdings.

Shareholders of every joint-stock land bank organized under this Act shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of stock owned by them at the par value thereof, in addition to the

amount paid in and represented by their shares.

Except as otherwise provided, joint-stock land banks shall have the powers of, and be subject to all the restrictions and conditions imposed on, Federal land banks by this Act, so far as such restrictions and conditions are applicable: *Provided, however,* That the Government of the United States shall not purchase or subscribe for any of the capital stock of any such bank; and each shareholder of any such bank shall have the same voting privileges as holders of shares in national banking associations.

Except otherwise provided, to have same powers and limitations as Federal land banks.

United States cannot subscribe to capital stock.

Shareholders have one vote for each share of stock.

No joint-stock land bank shall have power to issue or obligate itself for outstanding farm-loan bonds in excess of fifteen times the amount of its capital and surplus, or to receive deposits or to transact any banking or other business not expressly authorized by the provisions of this Act.

Banks cannot issue bonds aggregating more than 15 times capital and surplus, nor receive deposits nor transact business not expressly authorized.

No joint-stock land bank shall be authorized to do business until capital stock to the amount of at least \$250,000 has been subscribed, one half thereof paid in cash and the balance subject to call by the board of directors, and a charter has been issued to it by the Federal Farm Loan Board.

Minimum capital, \$250,000, one half paid in cash, balance subject to call.

No joint-stock land bank shall issue any bonds until after the capital stock is entirely paid up.

Stock must be paid up before issuance of bonds.

Farm-loan bonds issued by joint-stock land

Bonds must be different in form and color from Federal land-bank bonds.

Exempt from certain provisions applicable to Federal land banks.

Loans confined to first mortgages on farm lands located in same State as principal office or in one State contiguous.

Interest charge on farm loans limited to 1 per cent over rate paid on bonds.

No commission or charge not specifically authorized.

Bonds may be issued against hypothecated mortgages.

banks shall be so engraved as to be readily distinguished in form and color from farm-loan bonds issued by Federal land banks, and shall otherwise bear such distinguishing marks as the Federal Farm Loan Board shall direct.

Joint-stock land banks shall not be subject to the provisions of subsection (b) of section seventeen of this Act as to interest rates on mortgage loans or farm-loan bonds, nor to the provisions of subsections first, fourth, sixth, seventh, and tenth of section twelve as to restrictions on mortgage loans: *Provided, however,* That no loans shall be made which are not secured by first mortgages on farm lands within the State in which such joint-stock land bank has its principal office, or within some one State contiguous to such State. Such joint-stock land banks shall be subject to all other restrictions on mortgage loans imposed on Federal land banks in section twelve of this Act.

Joint-stock land banks shall in no case charge a rate of interest on farm loans exceeding by more than one per centum the rate of interest established for the last series of farm-loan bonds issued by them.

Joint-stock land banks shall in no case demand or receive, under any form or pretense, any commission or charge not specifically authorized in this Act.

Each joint-stock land bank organized under this Act shall have authority so issue

bonds based upon mortgages taken by it in accordance with the terms of this Act. Such bonds shall be in form prescribed by the Federal Farm Loan Board, and it shall be stated in such bonds that such bank is organized under section sixteen of this Act, is under Federal supervision, and operates under the provisions of this Act.

Under prescribed forms, stating therein that issuance is made under this authority.

Any joint-stock land bank organized and doing business under the provisions of this Act may go into voluntary liquidation by making provision, to be approved by the Federal Farm Loan Board, for the payment of its liabilities: *Provided*, That such method of liquidation shall have been duly authorized by a vote of at least two thirds of the shareholders of such joint-stock land bank at a regular meeting, or at a special meeting called for that purpose, of which at least ten days' notice in writing shall have been given to stockholders.

Voluntary liquidation of joint-stock land banks.

For the purpose of assisting in any such liquidation duly authorized as in the preceding paragraph provided, any Federal land bank may, with the approval of the Federal Farm Loan Board, acquire the assets and assume the liabilities of any joint-stock land bank, and in such transaction may waive the provisions of this Act requiring such land bank to acquire its loans only through national farm-loan associations, or agents, and those relating to status of borrower, purposes

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of loan, and also the limitation as to the amount of individual loans.

No Federal land bank shall assume the obligations of any joint-stock land bank, in such manner as to make its outstanding obligations more than twenty times its capital stock, except by the creation of a special reserve equal to one twentieth of the amount of such additional obligations assumed.

POWERS OF FEDERAL FARM LOAN BOARD

Farm Loan Board;
powers—

SEC. 17. That the Federal Farm Loan Board shall have power—

Charter Federal land
banks, joint-stock land
banks, and farm-loan
associations.

(a) To organize and charter Federal land banks, and to charter national farm-loan associations and joint-stock land banks subject to the provisions of this Act, and in its discretion to authorize them to increase their capital stock.

Fix interest charges
by Federal land banks;
joint-stock banks ex-
empted.

(b) To review and alter at its discretion the rate of interest to be charged by Federal land banks for loans made by them under the provisions of this Act, said rates to be uniform so far as practicable.

Refuse authority to
make specific issue of
bonds.

(c) To grant or refuse to Federal land banks, or joint-stock land banks, authority to make any specific issue of farm-loan bonds.

Regulate charges to
borrowers.

(d) To make rules and regulations respecting the charges made to borrowers on loans under this Act for expenses in appraisal, determination of title, and recording.

Require reports and
make examinations.

(e) To require reports and statements of

condition and to make examinations of all banks or associations doing business under the provisions of this Act.

(f) To prescribe the form and terms of farm-loan bonds, and the form, terms, and penal sums of all surety bonds required under this Act and of such other surety bonds as they shall deem necessary, such surety bonds to cover financial loss as well as faithful performance of duty.

Prescribe form and terms of bonds.

(g) To require Federal land banks to pay forthwith to any Federal land bank their equitable proportion of any sums advanced by said land bank to pay the coupons of any other land bank, basing said required payments on the amount of farm-loan bonds issued by each land bank and actually outstanding at the time of such requirement.

Require Federal land bank to repay pro rata sum advanced by one bank to pay coupons of another.

(h) To suspend or to remove for cause any district director or any registrar, appraiser, examiner, or other official appointed by said board under authority of section three of this Act, the cause of such suspension or removal to be communicated forthwith in writing by the Federal Farm Loan Board to the person suspended or removed, and in case of a district director to the proper Federal land bank.

Suspend or remove certain specified officials.

Cause of removal to be communicated in writing to official.

(i) To exercise general supervisory authority over the Federal land banks, the national farm-loan associations, and the joint-stock land banks herein provided for.

Exercise general supervisory authority over banks and associations.

Exercise requisite incidental powers.

(j) To exercise such incidental powers as shall be necessary or requisite to fulfill its duties and carry out the purposes of this Act.

APPLICATIONS FOR FARM-LOAN BONDS

Written application for authority to issue bonds made through registrar.

With application, qualified mortgages or United States bonds must be tendered as collateral security aggregating not less than sum of bonds proposed.

Schedule furnished of security tendered.

Registrar must transmit application and schedule to Farm Loan Board.

Farm Loan Board may grant or refuse authority for issuance after investigation.

SEC. 18. That any Federal land bank, or joint-stock bank, which shall have voted to issue farm-loan bonds under this Act, shall make written application to the Federal Farm Loan Board, through the farm-loan registrar of the district, for approval of such issue. With said application said land bank shall tender to said farm-loan registrar as collateral security first mortgages on farm lands qualified under the provisions of section twelve, section fifteen, or section sixteen of this Act, or United States Government bonds, not less in aggregate amount than the sum of the bonds proposed to be issued. Said bank shall furnish with such mortgages a schedule containing a description thereof and such further information as may be prescribed by the Federal Farm Loan Board.

Upon receipt of such application said farm-loan registrar shall verify said schedule and shall transmit said application and said schedule to the Federal Farm Loan Board, giving such further information pertaining thereto as he may possess. The Federal Farm Loan Board shall forthwith cause to be made such investigation and appraisalment of the securities tendered as it shall deem wise, and

it shall grant in whole or in part, or reject entirely, such application.

The Federal Farm Loan Board shall promptly transmit its decision as to any issue of farm-loan bonds to the land bank applying for the same and to the farm-loan registrar of the district. Said registrar shall furnish, in writing, such information regarding any issue of farm-loan bonds as the Federal Farm Loan Board may at any time require.

Board must advise its decision to registrar and applicant bank.

Board furnished any desired information by registrar.

No issue of farm-loan bonds shall be authorized unless the Federal Farm Loan Board shall approve such issue in writing.

No issue of bonds made without board's approval in writing.

ISSUE OF FARM-LOAN BONDS

SEC. 19. That whenever any farm - loan registrar shall receive from the Federal Farm Loan Board notice that it has approved any issue of farm-loan bonds under the provisions of section eighteen he shall forthwith take such steps as may be necessary, in accordance with the provisions of this Act, to insure the prompt execution of said bonds and the delivery of the same to the land bank applying therefor.

Registrar upon notice of approval must take necessary steps to insure prompt delivery of bonds to applicant bank.

Whenever the Federal Farm Loan Board shall reject entirely any application for an issue of farm-loan bonds, the first mortgages and bonds tendered to the farm-loan registrar as collateral security therefor shall be forthwith returned to said land bank by him.

In case of refusal of authority to issue bonds, collateral security tendered must be returned forthwith.

Whenever the Federal Farm Loan Board

Registrar to retain custody of collateral pledged as security for issue of bonds and return any other collateral tendered.

Mortgages and bonds assigned to registrar in trust, providing right of redemption and substitution.

Collateral deposited as Farm Loan Board may approve under control of registrar as trustee.

No mortgage accepted as security except qualified first mortgages.

shall approve an issue of farm-loan bonds, the farm-loan registrar having the custody of the first mortgages and bonds tendered as collateral security for such issue of bonds shall retain in his custody those first mortgages and bonds which are to be held as collateral security, and shall return to the bank owning the same any of said mortgages and bonds which are not to be held by him as collateral security. The land bank which is to issue said farm-loan bonds shall transfer to said registrar, by assignment, in trust, all first mortgages and bonds which are to be held by said registrar as collateral security, said assignment providing for the right of redemption at any time by payment as provided in this Act and reserving the right of substitution of other mortgages qualified under sections twelve, fifteen, and sixteen of this Act. Said mortgages and bonds shall be deposited in such deposit vault or bank as the Federal Farm Loan Board shall approve, subject to the control of said registrar and in his name as trustee for the bank issuing the farm-loan bonds and for the prospective holders of said farm-loan bonds.

No mortgage shall be accepted by a farm-loan registrar from a land bank as part of an offering to secure an issue of farm-loan bonds, either originally or by substitution, except first mortgages made subject to the conditions

prescribed in said sections twelve, fifteen, and sixteen.

It shall be the duty of each farm-loan registrar to see that the farm-loan bonds delivered by him and outstanding do not exceed the amount of collateral security pledged therefor. Such registrar may, in his discretion, temporarily accept, in place of mortgages withdrawn, United States Government bonds or cash.

Registrar to see outstanding bonds fully covered by collateral.

May temporarily accept in substitution United States bonds or cash.

The Federal Farm Loan Board may, at any time, call upon any land bank for additional security to protect the bonds issued by it.

Farm Loan Board may require additional security.

FORM OF FARM-LOAN BONDS

SEC. 20. That bonds provided for in this Act shall be issued in denominations of \$40, \$100, \$500, \$1,000, and such larger denominations as the Federal Farm Loan Board may authorize; they shall run for specified minimum and maximum periods, subject to payment and retirement, at the option of the land bank, at any time after five years from the date of their issue. They shall have interest coupons attached, payable semi-annually, and shall be issued in series of not less than \$50,000, the amount and terms to be fixed by the Federal Farm Loan Board. They shall bear a rate of interest not to exceed 5 per centum per annum.

Bonds issued in designated denominations; run maximum and minimum periods, subject to redemption after five years.

Interest paid semi-annually not exceeding 5 per cent per annum; bonds issued in series not less than \$50,000.

The Federal Farm Loan Board shall pre-

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Rules to be prescribed under which bonds may be retired.

scribe rules and regulations concerning the circumstances and manner in which farm-loan bonds shall be paid and retired under the provisions of this Act.

Farm-loan bonds shall be delivered through the registrar of the district to the bank applying for the same.

Bonds delivered through registrar to issuing bank.

Secretary of Treasury to prepare bonds in form approved by Farm Loan Board; hold same in Treasury subject to their order.

In order to furnish farm-loan bonds for delivery at the Federal land banks and joint-stock land banks, the Secretary of the Treasury is hereby authorized to prepare suitable bonds in such form, subject to the provisions of this Act, as the Federal Farm Loan Board may approve, such bonds when prepared to be held in the Treasury subject to delivery upon order of the Federal Farm Loan Board. The engraved plates, dies, bed-pieces, and so forth, executed in connection therewith shall remain in the custody of the Secretary of the Treasury. Any expenses incurred in the preparation, custody, and delivery of such farm-loan bonds shall be paid by the Secretary of the Treasury from any funds in the Treasury not otherwise appropriated: *Provided, however,* That the Secretary shall be reimbursed for such expenditures by the Federal Farm Loan Board through assessment upon the farm-land banks in proportion to the work executed. They may be exchanged into registered bonds of any amount, and re-exchanged into coupon bonds, at the option of the holder, under rules and

Secretary must retain custody of plates, pay expenses connected with issuance of bonds; reimbursed by Farm Loan Board through proportional assessment against banks.

Bonds exchanged into registered bonds and re-exchanged into coupon bonds at holder's option.

regulations to be prescribed by the Federal Farm Loan Board.

SPECIAL PROVISIONS OF FARM-LOAN BONDS

SEC. 21. That each land bank shall be bound in all respects by the acts of its officers in signing and issuing farm-loan bonds, and by the acts of the Federal Farm Loan Board in authorizing their issue.

Land bank is bound by acts of its officers in issuance of bonds.

Every Federal land bank issuing farm-loan bonds shall be primarily liable therefor, and shall also be liable, upon presentation of farm-loan bond coupons, for interest payments due upon any farm-loan bonds issued by other Federal land banks and remaining unpaid in consequence of the default of such other land banks; and every such bank shall likewise be liable for such portion of the principal of farm-loan bonds so issued as shall not be paid after the assets of any such other land banks shall have been liquidated and distributed: *Provided*, That such losses, if any, either of interest or of principal, shall be assessed by the Federal Farm Loan Board against solvent land banks liable therefor in proportion to the amount of farm-loan bonds which each may have outstanding at the time of such assessment.

Federal land bank primarily liable for its own issue; liable for interest at maturity on issue of other banks, and for principal of farm-loan bonds issued by any other Federal land bank, after assets are exhausted.

Losses, if any, as guarantors assessed pro rata against all banks liable.

Every Federal land bank shall by appropriate action of its board of directors, duly recorded in its minutes, obligate itself to

Minutes of Federal land bank must show liability as guarantor.

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become liable on farm-loan bonds as provided in this section.

Each farm-loan bond must be signed by the president or vice president and secretary or assistant secretary of issuing Federal land bank; must contain certificate from Farm Loan Commissioner specifying certain provisions.

Every farm-loan bond issued by a Federal land bank shall be signed by its president or vice president and attested by its secretary or assistant secretary. For the purpose of signing such bonds the board of directors of any Federal land bank is authorized to select a vice president who need not be a member of the board of directors; such bonds shall also contain in the face thereof a certificate signed by the Farm Loan Commissioner to the effect that it is issued under the authority of the Federal Farm Loan Act, has the approval in form and issue of the Federal Farm Loan Board, and is legal and regular in all respects; that it is not taxable by National, State, municipal, or local authority; that it is issued against collateral security of United States Government bonds, or indorsed first mortgages on farm lands, at least equal in amount to the bonds issued; and that all Federal land banks are liable for the payment of each bond.

APPLICATION OF AMORTIZATION AND INTEREST PAYMENTS

Registrar notified of collections made on pledged mortgages.

SEC. 22. That whenever any Federal land bank, or joint-stock land bank, shall receive any interest, amortization, or other payments upon any first mortgage or bond pledged as collateral security for the issue of farm-loan

bonds, it shall forthwith notify the farm-loan registrar of the items so received. Said registrar shall forthwith cause such payment to be duly credited upon the mortgage entitled to such credit. Whenever any such mortgage is paid in full, said registrar shall cause the same to be canceled and delivered to the proper land bank, which shall promptly satisfy and discharge the lien of record and transmit such canceled mortgage to the original maker thereof, or his heirs, administrators, executors, or assigns.

Registrar must see such payments properly credited, and cancel any mortgage when fully paid and deliver to land bank, which shall discharge lien of record.

Upon written application by any Federal land bank, or joint-stock land bank, to the farm-loan registrar, it may be permitted, in the discretion of said registrar, to withdraw any mortgages or bonds pledged as collateral security under this Act, and to substitute therefor other similar mortgages or United States Government bonds not less in amount than the mortgages or bonds desired to be withdrawn.

Collateral bonds and mortgages may be substituted by similar mortgages or United States bonds of similar amount.

Whenever any farm-loan bonds, or coupons or interest payments of such bonds, are due under their terms, they shall be payable at the land bank by which they were issued, in gold or lawful money, and upon payment shall be duly canceled by said bank. At the discretion of the Federal Farm Loan Board, payment of any farm-loan bond or coupon or interest payment may, however, be authorized to be made at any Federal land bank, any

Matured bonds and interest made payable at bank of issuance.

May be authorized paid elsewhere at discretion of Farm Loan Board.

joint-stock land bank, or any other bank, under rules and regulations to be prescribed by the Federal Farm Loan Board.

Land banks may withdraw pledged mortgages by surrender of equal amount of farm-loan bonds of any series.

When any land bank shall surrender to the proper farm-loan registrar any farm-loan bonds of any series, canceled or uncanceled, said land bank shall be entitled to withdraw first mortgages and bonds pledged as collateral security for any of said series of farm-loan bonds to an amount equal to the farm-loan bonds so surrendered, and it shall be the duty of said registrar to permit and direct the delivery of such mortgages and bonds to such land bank.

Interest collected on pledged mortgages available to land bank for payment of interest on bonds.

Interest payments on hypothecated first mortgages shall be at the disposal of the land bank pledging the same, and shall be available for the payment of coupons and the interest of farm-loan bonds as they become due.

Full amount of interest must be paid when due, on presentation of coupons where made payable.

Whenever any bond matures, or the interest on any registered bond is due, or the coupon or any coupon bond matures, and the same shall be presented for payment as provided in this Act, the full face value thereof shall be paid to the holder.

Payments collected on pledged mortgages held in trust.

Amortization and other payments on the principal of first mortgages held by a farm-loan registrar as collateral security for the issue of farm-loan bonds shall constitute a trust fund in the hands of the Federal land bank or joint-stock land bank receiving the

same, and shall be applied or employed as follows:

In the case of a Federal land bank—

(a) To pay off farm-loan bonds issued by said bank as they mature.

Must be applied by a Federal land bank—
To cancel its own bonds.

(b) To purchase at or below par farm-loan bonds issued by said bank or by any other Federal land bank.

To purchase Federal farm-loan bonds.

(c) To loan on first mortgages on farm lands within the land-bank district, qualified under this Act as collateral security for an issue of farm-loan bonds.

To lend on farm lands within district upon first mortgages.

(d) To purchase United States Government bonds.

To buy United States bonds.

In the case of a joint-stock land bank—

(a) To pay off farm-loan bonds issued by said bank as they mature.

Joint-stock land banks must apply such collections—
To cancel its own bonds.

(b) To purchase at or below par farm-loan bonds.

To purchase farm-loan bonds.

(c) To loan on first mortgages qualified under section sixteen of this Act.

To lend on farm lands within State or one other State, upon qualified first mortgages.

(d) To purchase United States Government bonds.

To buy United States bonds.

The farm-loan bonds, first mortgages, United States Government bonds, or cash constituting the trust fund aforesaid, shall be forthwith deposited with the farm-loan registrar as substituted collateral security in place of the sums paid on the principal of indorsed mortgages held by him in trust.

Investments representing trust fund must be turned over to registrar as substituted collateral.

Every Federal land bank, or joint-stock land bank, shall notify the farm-loan regis-

Registrar must be notified as to disposition of payments collected on principal of pledged.

mortgages; may take direct control of the fund as trustee.

trar of the disposition of all payments made on the principal of mortgages held as collateral security for an issue of farm-loan bonds, and said registrar is authorized, at his discretion, to order any of such payments, or the proceeds thereof, wherever deposited or however invested, to be immediately transferred to his account as trustee aforesaid.

RESERVES AND DIVIDENDS OF LAND BANKS

Twenty-five per cent of net earnings of land bank semiannually retained as reserve fund until a sum equal to 20 per cent of capital stock is accumulated.

If reserve is impaired, must be restored before dividends are paid.

After 20 per cent reserve is accumulated 5 per cent of net annual earnings added.

If mortgagor and indorser default, amount defaulted carried in suspense account for two years before being debited to reserve.

SEC. 23. That every Federal land bank, and every joint-stock land bank, shall semiannually carry to reserve account twenty-five per centum of its net earnings until said reserve account shall show a credit balance equal to twenty per centum of the outstanding capital stock of said land bank. Whenever said reserve shall have been impaired, said balance of twenty per centum shall be fully restored before any dividends are paid. After said reserve has reached the sum of twenty per centum of the outstanding capital stock, five per centum of the net earnings shall be annually added thereto. For the period of two years from the date when any default occurs in the payment of the interest, amortization installments, or principal on any first mortgage, by both mortgagor and indorser, the amount so defaulted shall be carried to a suspense account, and at the end of the two-year period specified, unless collected, shall be debited to reserve account.

After deducting the twenty-five per centum or the five per centum hereinbefore directed to be deducted for credit to reserve account, any Federal land bank or joint-stock land bank may declare a dividend to shareholders of the whole or any part of the balance of its net earnings. The reserves of land banks shall be invested in accordance with rules and regulations to be prescribed by the Federal Farm Loan Board.

Dividends may be declared from net earnings after reserve requirements are met.

Farm Loan Board must direct investment of reserve fund.

RESERVE AND DIVIDENDS OF NATIONAL FARM LOAN ASSOCIATIONS

SEC. 24. That every national farm-loan association shall, out of its net earnings, semi-annually carry to reserve account a sum not less than ten per centum of such net earnings until said reserve account shall show a credit balance equal to twenty per centum of the outstanding capital stock of said association.

Ten per cent of net earnings of farm-loan associations semiannually retained as reserve fund until it amounts to 20 per cent of capital stock.

Whenever said reserve shall have been impaired, said credit balance of twenty per centum shall be fully restored before any dividends are paid. After said reserve has reached said sum of twenty per centum, two per centum of the net earnings shall be annually added thereto.

If impaired, restored before dividends are paid.

After 20 per cent reserve is accumulated 2 per cent of annual net earnings added.

After deducting the ten per centum or the two per centum hereinbefore directed to be credited to reserve account, said association may, at its discretion, declare a dividend to

Dividends declared from net earnings after reserve requirements are met.

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shareholders of the whole or any part of the balance of said net earnings.

Farm Loan Board directs investment of reserve fund.

The reserves of farm-loan associations shall be invested in accordance with rules and regulations to be prescribed by the Federal Farm Loan Board.

Reserve fund paid over to Federal land bank in case of voluntary liquidation.

Whenever any farm-loan association shall be voluntarily liquidated a sum equal to its reserve account as herein required shall be paid to and become the property of the Federal land bank in which such loan association may be a shareholder.

DEFAULTED LOANS

Indorser on first mortgages must be notified of any defaults; may be required within 30 days to pay same in cash or in bonds of holding bank.

SEC. 25. That if there shall be default under the terms of any indorsed first mortgage held by a Federal land bank under the provisions of this Act, the national farm-loan association or agent through which said mortgage was received by said Federal land bank shall be notified of said default. Said association or agent may thereupon be required, within thirty days after such notice, to make good said default, either by payment of the amount unpaid thereon in cash, or by the substitution of an equal amount of farm-loan bonds issued by said land bank, with all unmatured coupons attached.

EXEMPTION FROM TAXATION

Capital, surplus, and dividends of Federal land banks and farm-

SEC. 26. That every Federal land bank and every national farm-loan association, in-

cluding the capital and reserve or surplus therein and the income derived therefrom, shall be exempt from Federal, State, municipal, and local taxation, except taxes upon real estate held, purchased, or taken by said bank or association under the provisions of section eleven and section thirteen of this Act. First mortgages executed to Federal land banks, or to joint-stock land banks, and farm-loan bonds issued under the provisions of this Act, shall be deemed and held to be instrumentalities of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation.

Nothing herein shall prevent the shares in any joint-stock land bank from being included in the valuation of the personal property of the owner or holder of such shares, in assessing taxes imposed by authority of the State within which the bank is located; but such assessment and taxation shall be in manner and subject to the conditions and limitations contained in section fifty-two hundred and nineteen of the Revised Statutes with reference to the shares of national banking associations.

Nothing herein shall be construed to exempt the real property of Federal and joint-stock land banks and national farm-loan associations from either State, county, or

loan associations exempt from taxes, except on real estate.

Mortgages and farm-loan bonds instrumentalities of the Government and exempt from taxation, including income therefrom.

Shareholders in joint-stock banks taxable on shares in same manner as in national banks.

Real property of land banks and associations taxable as other real property.

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municipal taxes, to the same extent, according to its value, as other real property is taxed.

INVESTMENT IN FARM-LOAN BONDS

Farm-loan bonds lawful investment for all trust funds and available as security for public deposits.

SEC. 27. That farm-loan bonds issued under the provisions of this Act by Federal land banks or joint-stock land banks shall be a lawful investment for all fiduciary and trust funds, and may be accepted as security for all public deposits.

Member banks may buy and sell farm-loan bonds.

Any member bank of the Federal Reserve System may buy and sell farm-loan bonds issued under the authority of this Act.

Federal Reserve Banks may buy and sell farm-loan bonds having maturity not exceeding six months.

Any Federal reserve bank may buy and sell farm-loan bonds issued under this Act to the same extent and subject to the same limitations placed upon the purchase and sale by said banks of State, county, district, and municipal bonds under subsection (b) of section fourteen of the Federal reserve Act approved December twenty-third, nineteen hundred and thirteen.

EXAMINATIONS

Farm Loan Board appoints necessary land-bank examiners.

SEC. 28. That the Federal Farm Loan Board shall appoint as many land-bank examiners as in its judgment may be required to make careful examinations of the banks and associations permitted to do business under this Act.

Said examiners shall be subject to the same

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requirements, responsibilities and penalties as are applicable to national bank examiners under the national bank Act, the Federal Reserve Act and other provisions of law. Whenever directed by the Federal Farm Loan Board, said examiners shall examine the condition of any national farm-loan association and report the same to the Farm Loan Commissioner. They shall examine and report the condition of every Federal land bank and joint-stock land bank at least twice each year.

Said examiners shall receive salaries to be fixed by the Federal Farm Loan Board.

Land bank examiners subject to same requirements as national bank examiners.

Examiners subject to control of Farm Loan Board.

Reports made to the Farm Loan Commissioner semiannually or oftener.

Examiners' salaries fixed by Farm Loan Board.

DISSOLUTION AND APPOINTMENT OF RECEIVERS

SEC. 29. That upon receiving satisfactory evidence that any national farm-loan association has failed to meet its outstanding obligations of any description the Federal Farm Loan Board may forthwith declare such association insolvent and appoint a receiver and require of him such bond and security as it deems proper: *Provided*, That no national farm-loan association shall be declared insolvent by said board until the total amount of defaults of current interest and amortization installments on loans indorsed by national farm-loan associations shall amount to at least \$150,000 in the Federal land-bank district, unless such association shall have been in default for a period

Farm Loan Board may appoint receiver for any defaulting association.

Provided minimum amount defaulted in any district is \$150,000, but default of no association can extend beyond two years.

Receiver takes possession of and collects all assets of defaulted association.

May sell or compound bad or doubtful debts and sell all property under direction of court or Farm Loan Board.

Collections from assets of defaulted associations deposited with United States Treasurer; receiver reports proceedings to Farm Loan Board.

Land banks similarly placed in hands of receiver upon default.

In case of insolvency and receivership stock held by association in land bank canceled and proceeds used to pay indebtedness to Federal land bank.

of two years. Such receiver, under the direction of the Federal Farm Loan Board, shall take possession of the books, records, and assets of every description of such association, collect all debts, dues, and claims belonging to it, and, with the approval of the Federal Farm Loan Board, or upon the order of a court of record of competent jurisdiction, may sell or compound all bad or doubtful debts, and, on a like approval or order, may sell all the real and personal property of such association, on such terms as the Federal Farm Loan Board or said court shall direct.

Such receiver shall pay over all money so collected to the Treasurer of the United States, subject to the order of the Federal Farm Loan Board, and also make report to said board of all his acts and proceedings. The Secretary of the Treasury shall have authority to deposit at interest any money so received.

Upon default of any obligation, Federal land banks and joint-stock banks may be declared insolvent and placed in the hands of a receiver by the Federal Farm Loan Board, and proceedings shall thereupon be had in accordance with the provisions of this section regarding national farm-loan associations.

If any national farm-loan association shall be declared insolvent and a receiver shall be appointed therefor by the Federal Farm Loan

Board, the stock held by it in the Federal land bank of its district shall be canceled without impairment of its liability and all payments on such stock, with accrued dividends, if any, since the date of the last dividend shall be first applied to all debts of the insolvent farm-loan association to the Federal land bank, and the balance, if any, shall be paid to the receiver of said farm-loan association: *Provided*, That in estimating said debts contingent liabilities incurred by national farm-loan associations under the provisions of this Act on account of default of principal or interest of indorsed mortgages shall be estimated and included as a debt, and said contingent liabilities shall be determined by agreement between the receiver and the Federal land bank of the district, subject to the approval of the Federal Farm Loan Board, and if said receiver and said land bank cannot agree, then by the decision of the Farm Loan Commissioner, and the amount thus ascertained shall be deducted in accordance with the provisions of this section from the amount otherwise due said national farm-loan association for said canceled stock. Whenever the capital stock of a Federal land bank shall be reduced, the board of directors shall cause to be executed a certificate to the Federal Farm Loan Board, showing such reduction of capital stock, and, if said reduction shall be due to the insol-

Contingent liability as endorser on defaulted mortgages estimated as a debt, amount determined by agreement and deducted from proceeds of canceled stock.

Reduction of stock by Federal land bank reported, and specifically amount paid therefor to receiver of an insolvent association.

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veny of a national farm-loan association, the amount repaid to such association.

Farm Loan Board must give written consent for voluntary liquidation.

Loan associations may consolidate under authority of Farm Loan Board.

No national farm-loan association, Federal land bank or joint-stock bank shall go into voluntary liquidation without the written consent of the Federal Farm Loan Board, but national farm-loan associations may consolidate under rules and regulations promulgated by the Federal Farm Loan Board.

STATE LEGISLATION

Laws of several States examined into by commissioner and Farm Loan Board advised if such laws give adequate protection to holders of first mortgages on lands within each State.

SEC. 30. That it shall be the duty of the Farm Loan Commissioner to make examination of the laws of every State of the United States and to inform the Federal Farm Loan Board as rapidly as may be whether in his judgment the laws of each State relating to the conveying and recording of land titles, and the foreclosure of mortgages or other instruments securing loans, as well as providing homestead and other exemptions and granting the power to waive such exemptions as respects first mortgages, are such as to assure the holder thereof adequate safeguards against loss in the event of default on loans secured by any such mortgages.

Board may declare mortgages ineligible as security for farm-loan bonds pending such examination; if satisfied laws of any State give inadequate security, may make mortgages therein ineligible during continuance of objectionable laws.

Pending the making of such examination in the case of any State, the Federal Farm Loan Board may declare first mortgages on farm lands situated within such State ineligible as the basis for an issue of farm-loan bonds; and if said examination shall show

that the laws of any such State afford insufficient protection to the holder of first mortgages of the kinds provided in this Act, said Federal Farm Loan Board may declare said first mortgages on land situated in such state ineligible during the continuance of the laws in question. In making his examination of the laws of the several States and forming his conclusions thereon said Farm Loan Commissioner may call upon the office of the Attorney General of the United States for any needed legal advice or assistance, or may employ special counsel in any State where he considers such action necessary.

Commissioner may ask advice from office of Attorney General or employ special counsel in any State.

At the request of the Executive of any State the Federal Farm Loan Board shall prepare a statement setting forth in what respects the requirements of said board cannot be complied with under the existing laws of such State.

Executive of any State may require Farm Loan Board to state wherein its requirements are at variance with State laws.

PENALTIES

SEC. 31. That any applicant for a loan under this Act who shall knowingly make any false statement in his application for such loan, and any member of a loan committee or any appraiser provided for in this Act who shall willfully overvalue any land offered as security for loans under this Act, shall be punished by a fine of not exceeding \$5,000, or by imprisonment not exceeding one year, or both. Any examiner appointed

Applicant who knowingly makes false statement or appraiser who willfully makes overvaluation shall be punished.

Examiner who accepts a loan or gratuity from bank, or person connected therewith, shall be punished.

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under this Act who shall accept a loan or gratuity from any land bank or national farm-loan association examined by him, or from any person connected with any such bank or association in any capacity, shall be punished by a fine of not exceeding \$5,000, or by imprisonment not exceeding one year, or both, and may be fined a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as an examiner under the provisions of this Act. No examiner, while holding such office, shall perform any other service for compensation for any bank or banking or loan association, or for any person connected therewith in any capacity.

No examiner can perform other service for compensation for bank, or person connected with it.

Penalty prescribed for forgery and counterfeiting.

Any person who shall falsely make, forge, or counterfeit, or cause or procure to be falsely made, forged, or counterfeited, or willingly aid or assist in falsely making, forging, or counterfeiting any bond, coupon, or paper in imitation of, or purporting to be in imitation of, the bonds or coupons issued by any land bank or national farm-loan association, now or hereafter authorized and acting under the laws of the United States; or any person who shall pass, utter, or publish, or attempt to pass, utter, or publish any false, forged, or counterfeited bond, coupon, or paper purporting to be issued by any such bank or association, knowing the same

For uttering false or forged instrument.

to be falsely made, forged, or counterfeited; or whoever shall falsely alter, or cause or procure to be falsely altered, or shall willingly aid or assist in falsely altering any such bond, coupon, or paper, or shall pass, utter, or publish as true any falsely altered or spurious bond, coupon, or paper issued, or purporting to have been issued, by any such bank or association, knowing the same to be falsely altered or spurious, shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding five years, or both.

For altering same or willingly aiding therein.

Other than the usual salary or director's fee paid to any officer, director, or employee of a national farm-loan association, a Federal land bank, or a joint-stock land bank, and other than a reasonable fee paid by such association or bank to any officer, director, attorney, or employee for services rendered, no officer, director, attorney, or employee of an association or bank organized under this Act shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of such association or bank. No land bank or national farm-loan association organized under this Act shall charge or receive any fee, commission, bonus, gift, or other consideration not herein specifically authorized. No examiner, public or private, shall disclose the names of borrowers to other than the proper

No compensation allowed received by anyone employed by land bank or association except usual salary or fee.

No land bank or association may make charge except as herein specifically authorized.

Names of borrowers not to be disclosed by examiners.

officers of a national farm-loan association or land bank without first having obtained express permission in writing from the Farm Loan Commissioner or from the board of directors of such association or bank, except when ordered to do so by a court of competent jurisdiction or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress or of either House duly authorized. Any person violating any provision of this paragraph shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding one year, or both.

Penalty prescribed.

Punishment prescribed for embezzlement, false entry, and other fraudulent acts.

Any person connected in any capacity with any national farm-loan association, Federal land bank, or joint-stock land bank, who embezzles, abstracts, or willfully misapplies any moneys, funds, or credits thereof, or who without authority from the directors draws any order, assigns any note, bond, draft, mortgage, judgment, or decree thereof, or who makes any false entry in any book, report, or statement of such association or land bank with intent in either case to defraud such institution or any other company, body politic or corporate, or any individual person, or to deceive any officer of a national farm-loan association or land bank or any agent appointed to examine into the affairs of any such association or bank, and every person who with like intent aids or abets

any officer, clerk, or agent in any violation of this section, shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding five years, or both.

Any person who shall deceive, defraud, or impose upon, or who shall attempt to deceive, defraud, or impose upon, any person, firm, or corporation by making any false pretense or representation regarding the character, issue, security, or terms of any farm-loan bond, or coupon, issued under the terms of this Act; or by falsely pretending or representing that any farm-loan bond, or coupon, issued under the terms of this Act by one class of land banks is a farm-loan bond, or coupon, issued by another class of banks; or by falsely pretending or representing that any farm-loan bond, or coupon, issued under the terms of this Act, or anything contained in said farm-loan bond, or coupon, is anything other than, or different from, what it purports to be on the face of said bond or coupon, shall be fined not exceeding \$500 or imprisoned not exceeding one year, or both.

Punishment prescribed for false representation concerning different classes or issues of bonds.

The Secretary of the Treasury is hereby authorized to direct and use the Secret Service Division of the Treasury Department to detect, arrest, and deliver into custody of the United States marshal having jurisdiction, any person or persons violating any of the provisions of this section.

Secret service available for detection of violation of law.

GOVERNMENT DEPOSITS

Temporary deposits of public money in Federal land banks authorized.

Certificate issued bearing interest.

Satisfactory security given.

Certificates paid at discretion of Secretary of Treasury.

Aggregate deposits limited.

Secretary of the Treasury authorized to purchase Federal farm-loan bonds; extended by Congress (Joint Resolution approved May 26, 1920) to June 30, 1921.

SEC. 32. That the Secretary of the Treasury is authorized, in his discretion, upon the request of the Federal Farm Loan Board, to make deposits for the temporary use of any Federal land bank, out of any money in the Treasury not otherwise appropriated. Such Federal land bank shall issue to the Secretary of the Treasury a certificate of indebtedness for any such deposit, bearing a rate of interest not to exceed the current rate charged for other Government deposits, to be secured by farm-loan bonds or other collateral, to the satisfaction of the Secretary of the Treasury. Any such certificate shall be redeemed and paid by such land bank at the discretion of the Secretary of the Treasury. The aggregate of all sums so deposited by the Secretary of the Treasury shall not exceed the sum of \$6,000,000 at any one time.

The Secretary of the Treasury is further authorized, in his discretion, upon the request of the Federal Farm Loan Board, from time to time during the fiscal years ending June thirtieth, nineteen hundred and eighteen, and June thirtieth, nineteen hundred and nineteen, respectively, to purchase at par and accrued interest with any funds in the Treasury not otherwise appropriated, from any Federal land bank, farm-loan bonds issued by such bank.

Such purchases shall not exceed the sum of \$100,000,000 in either of such fiscal years. Any Federal land bank may at any time repurchase at par and accrued interest for the purpose of redemption or resale any bonds so purchased from it and held in the Treasury.

The bonds of any Federal land bank so purchased by the Secretary of the Treasury, and held in the Treasury under the provisions of this amendment one year after the termination of the pending war, shall upon thirty days' notice from the Secretary of the Treasury be redeemed or repurchased by such bank at par and accrued interest.

Shall be repurchased upon 30 days' notice from Secretary, one year after termination of pending war.

The temporary organization of any Federal land bank as provided in section four of said Federal Farm Loan Act shall be continued so long as any farm-loan bonds purchased from it under the provisions of this amendment shall be held by the Treasury, and until the subscriptions to stock in such bank by national farm-loan associations shall equal the amount of stock held in such bank by the Government of the United States.

Temporary organization of Federal land banks continued.

ORGANIZATION EXPENSES

SEC. 33 That the sum of \$100,000, or so much thereof as may be necessary, is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to be expended under the direction of the Federal Farm Loan Board, for the purpose of carrying

Organization expenses appropriated, disbursed under direction of Farm Loan Board.

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into effect the provisions of this Act, including the rent and equipment of necessary offices.

LIMITATION OF COURT DECISIONS

Whole act cannot be declared invalid by declaring any part thereof invalid.

SEC. 34. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

REPEALING CLAUSE

Other inconsistent acts repealed; right reserved to amend, alter, or repeal.

SEC. 35. That all Acts or parts of Acts inconsistent with this Act are hereby repealed, and this Act shall take effect upon its passage. The right to amend, alter, or repeal this Act is hereby expressly reserved.

Approved July 17, 1916.

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<i>see also</i> Government of United States.		
United States bonds. <i>See</i> Bonds, United States.		
United States Commission:		
members.....	*	*
V		
Voluntary Liquidation. <i>See</i> liquidation.		

*See note page 185.

APPENDIX C

BIBLIOGRAPHY

The following list of books, documents, and pamphlets, while not exhaustive, is sufficiently complete for the student who seeks a comprehensive knowledge of the subject of rural credits. Brief observations are made on the general nature of the books listed, with a view to further assisting the student. The documents and pamphlets are in the nature of official reports or statements, their contents being indicated by their longer title.—THE AUTHOR.

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manner. While it is of value as a philosophical exposition of rural credits by one whose knowledge of the subject is considerable, it lacks the definite, as distinguished from the philosophic, method of treatment (New York, 1917).

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APPENDIX D

SUPREME COURT OF THE UNITED STATES

No. 199.—OCTOBER TERM, 1920

Charles E. Smith	} Appeal from the Dis-	
Appellant,		trict Court of the
vs.		United States for the
Kansas City Title & Trust		Western District of
Company. et al., Appellees.	Missouri.	

[February 28, 1921.]

Mr. Justice DAY delivered the opinion of the Court.

A bill was filed in the United States District Court for the Western Division of the Western District of Missouri by a shareholder in the Kansas City Title & Trust Company to enjoin the Company, its officers, agents and employees from investing the funds of the Company in farm-loan bonds issued by Federal Land Banks or Joint Stock Land Banks under authority of the Federal Farm Loan Act of July 17, 1916, 39 Stat. 360, as amended January 18, 1918, 40 Stat. 431.

The relief was sought on the ground that these Acts were beyond the constitutional power of Con-

gress. The bill avers that the Board of Directors of the Company are about to invest its funds in the bonds to the amount of \$10,000 in each of the classes described, and will do so unless enjoined by the court in this action. The bill avers the formation of twelve Federal Land Banks, and twenty-one Joint Stock Land Banks under the provisions of the Act.

As to the Federal Land Banks, it is averred that each of them has loaned upon farm lands large amounts secured by mortgage, and after depositing the same with the Farm Loan Registrar, has executed and issued collateral trust obligations called Farm Loan Bonds, secured by the depositing of an equivalent amount of farm mortgages and notes; and that each of said Federal Land Banks has sold, and is continuing to offer for sale, large amounts of said farm-loan bonds. The bill also avers that various persons in different parts of the United States have organized twenty-one Joint Stock Land Banks, the capital stock of which is subscribed for and owned by private persons; that the Joint Stock Land Banks have deposited notes and mortgages with the Farm Loan Registrar, and issued an equivalent amount of collateral trust obligations called Farm Loan Bonds, which have been sold and will be continued to be offered for sale to investors in large amounts in the markets of the country. A statement is given of the amount of deposits by the Secretary of the Treasury with the Federal Land Banks, for which the banks have issued their certificates of indebtedness bearing interest at 2% per annum. It is averred that on September 30, 1919,

Federal Land Banks owned United States bonds of the par value of \$4,230,805; and the Joint Stock Land Banks owned like bonds of the par value of \$3,287,503 on August 31, 1919; that pursuant to the provisions of the Act the Secretary of the Treasury has invested \$8,892,130 of the public funds in the capital stock of the Federal Land Banks, and that on July 1, 1919, the Secretary of the Treasury on behalf of the United States held \$8,265,809 of the capital stock of the Federal Land Banks; that pursuant to the provisions of Section 32 of the Act, as amended, the Secretary of the Treasury has purchased farm-loan bonds issued by the Federal Land Banks of the par value of \$149,775,000; that up to September 30, 1919, bonds have been issued under the Act by the Federal Land Banks to the amount of \$285,600,000, of which about \$135,000,000 are held in the Treasury of the United States, purchased under the authority of the amendment of January 19, 1918; that up to September 30, 1919, twenty-seven Joint Stock Land Banks have been incorporated under the Act, having an aggregate capital of \$8,000,000, all of which has been subscribed and \$7,450,000 paid in; that bonds have been issued by Joint Stock Land Banks to the amount of \$41,000,000, which are now in the hands of the public; that the Secretary of the Treasury up to the time of the filing of the bill has not designated any of the Federal Land Banks nor the Joint Stock Land Banks as depositories of public money, nor except as stated later in the bill, has he employed them or any of them as financial agents of the Government, nor

have they or any of them performed any duties as depositaries of public money, nor have they or any of them accepted any deposits or engaged in any banking business. The bill avers that during the summer of 1918 the Federal Land Banks at Wichita, St. Paul and Spokane were designated as financial agents of the Government for making seed-grain loans to farmers in drought-stricken sections, the President having at the request of the Secretary of Agriculture set aside \$5,000,000 for that purpose out of the \$100,000,000 war funds. The three banks mentioned made upwards of 15,000 loans of that character, aggregating a sum upwards of \$4,500,000, and are now engaged in collecting these loans, all of which are secured by crop liens; that these banks act in that capacity without compensation, receiving only the actual expenses incurred.

Section 27 of the Act provides that farm-loan bonds issued under the provisions of the Act by Federal Land Banks or Joint Stock Land Banks shall be a lawful investment for all fiduciary and trust funds, and may be accepted as security for all public deposits. The bill avers that the defendant Trust Company is authorized to buy, invest in and sell Government, State and municipal and other bonds, but it cannot buy, invest in or sell any such bonds, papers, stocks or securities which are not authorized to be issued by a valid law or which are not investment securities, but that nevertheless it is about to invest in farm-loan bonds; that the Trust Company has been induced to direct its officers to make the investment by reason of its reliance upon the pro-

visions of the Farm Loan Acts, especially sections 21, 26 and 27, by which the Farm Loan Bonds are declared to be instrumentalities of the Government of the United States, and as such with the income derived therefrom, are declared to be exempt from Federal, State, Municipal and local taxation, and are further declared to be lawful investments for all fiduciary and trust funds. The bill further avers that the Acts by which it is attempted to authorize the bonds are wholly illegal, void and unconstitutional and of no effect because unauthorized by the Constitution of the United States.

The bill prays that the Acts of Congress authorizing the creation of the banks, especially sections 26 and 27 thereof, shall be adjudged and decreed to be unconstitutional, void and of no effect, and that the issuance of the farm-loan bonds, and the taxation exemption feature thereof, shall be adjudged and decreed to be invalid.

The First Joint Stock Land Bank of Chicago and the Federal Land Bank of Wichita, Kansas, were allowed to intervene and became parties defendant to the suit. The Kansas City Title & Trust Company filed a motion to dismiss in the nature of a general demurrer, and upon hearing the District Court entered a decree dismissing the bill, from this decree appeal was taken to this court.

No objection is made to the Federal jurisdiction, either original or appellate, by the parties to this suit, but that question will be first examined. The Company is authorized to invest its funds in legal securities only. The attack upon the proposed in-

vestment in the bonds described is because of the alleged unconstitutionality of the Acts of Congress undertaking to organize the banks and authorize the issue of the bonds. No other reason is set forth in the bill as a ground of objection to the proposed investment by the Board of Directors acting in the Company's behalf. As diversity of citizenship is lacking, the jurisdiction of the District Court depends upon whether the cause of action set forth arises under the Constitution or laws of the United States. Judicial Code, Sec. 24.

The general rule is that where it appears from the bill or statement of the plaintiff that the right to relief depends upon the construction or application of the Constitution or laws of the United States, and that such Federal claim is not merely colorable, and rests upon a reasonable foundation, the District Court has jurisdiction under this provision.

At an early date, considering the grant of constitutional power to confer jurisdiction upon the Federal Courts, Chief-Justice Marshall said:

"A case in law or equity consists of the right of the one party, as well as of the other, and may truly be said to arise under the Constitution or a law of the United States whenever its correct decision depends upon the construction of either," *Cohens v. Virginia*, 6 Wheat. 264, 379; and again, when "the right or title set up by the party may be defeated by one construction of the Constitution or law of the United States, and sustained by the opposite construction," *Osborn v. Bank of the United States*, 9 Wheat. 738, 822. These definitions were quoted and approved in *Patton v. Brady*, 184 U. S. 608, 611, citing *Gold Washing Co. v. Keyes*, 96 U. S. 199, 201; *Tennessee v. Davis*, 100 U. S. 257; *White v. Greenhow*, 114 U. S. 307; *Railroad Company v. Mississippi*, 102 U. S. 135, 139.

This characterization of a suit arising under the Constitution or laws of the United States has been followed in many decisions of this and other Federal courts. See *Macon Grocery Company v. Atlantic Coast Line*, 215 U. S. 501, 506, 507; *Shulthis v. McDougal*, 225 U. S. 569, § 3. The principle was applied in *Brushaber v. Union Pacific Co.*, 240 U. S. 1, in which a shareholder filed a bill to enjoin the defendant corporation from complying with the income tax provisions of the Tariff Act of October 3, 1913. In that case while there was diversity of citizenship, a direct appeal to this court was sustained because of the constitutional questions raised in the bill, which had been dismissed by the court below. The repugnancy of the statute to the Constitution of the United States, as well as grounds of equitable jurisdiction, were set forth in the bill, and the right to come here on direct appeal was sustained because of the averments based upon constitutional objections to the Act. Reference was made to *Pollock v. Farmers' Loan & Trust Company*, 157 U. S. 429, where a similar shareholder's right to sue was maintained, and a direct appeal to this court from a decree of the Circuit Court was held to be authorized.

In the *Brushaber* case the Chief Justice, speaking for the Court said:

The right to prevent the corporation from returning and paying the tax was based upon many averments as to the repugnancy of the statute to the Constitution of the United States, of the peculiar relation of the corporation to the stockholders and their particular interests resulting from many of the administrative provisions of the assailed act, of the confusion, wrong and multiplicity of suits and the absence of all means of redress which

would result if the corporation paid the tax and complied with the act in other respects without protest, as it was alleged it was its intention to do. To put out of the way a question of jurisdiction, we at once say that in view of these averments and the ruling in *Pollock v. Farmers' Loan & Trust Company*, 157 U. S. 429, sustaining the right of a stockholder to sue to restrain a corporation under proper averments from voluntarily paying a tax charged to be unconstitutional on the ground that to permit such a suit did not violate the prohibitions of Section 3224, Rev. Stat., against enjoining the enforcement of taxes, we are of opinion that the contention here made that there was no jurisdiction of the cause since to entertain it would violate the provisions of the Revised Statutes referred to is without merit. . . .

Aside from averments as to citizenship and residence, recitals as to the provisions of the statute and statements as to the business of the corporation contained in the first ten paragraphs of the bill advanced to sustain jurisdiction, the bill alleged twenty-one constitutional objections specified in that number of paragraphs or subdivisions. As all the grounds assert a violation of the Constitution, it follows that in a wide sense they all charge a repugnancy of the statute to the Sixteenth Amendment under the more immediate sanction of which the statute was adopted.

The jurisdiction of this court is to be determined upon the principles laid down in the cases referred to. In the instant case the averments of the bill show that the directors were proceeding to make the investments in view of the Act authorizing the bonds about to be purchased, maintaining that the Act authorizing them was constitutional and the bonds valid and desirable investments. The objecting shareholder avers in the bill that the securities were issued under an unconstitutional law, and hence of no validity. It is, therefore, apparent that the controversy concerns the constitutional validity of an Act of Congress which is directly drawn in question. The decision depends upon the determination of this issue.

The general allegations as to the interest of the shareholder, and his right to have an injunction to prevent the purchase of the alleged unconstitutional securities by misapplication of the funds of the corporation, gives jurisdiction under the principles settled in *Pollock v. Trust Company*, and *Brushaber v. Union Pacific Company*, *supra*. We are, therefore, of the opinion that the District Court had jurisdiction under the averments of the bill, and that a direct appeal to this court upon constitutional grounds is authorized.

We come to examine the questions presented by the attack upon the constitutionality of the legislation in question. The Federal Farm Loan Act is too lengthy to set out in full. It is entitled:

An act to provide capital for agricultural development, to create standard forms of investment based upon farm mortgage, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create government depositories and financial agents for the United States, and for other purposes.

The administration of the Act is placed under the direction and control of a Federal Farm Loan Bureau established at the seat of Government in the Treasury Department, under the general supervision of the Federal Loan Board consisting of the Secretary of the Treasury and four members appointed by the President, by and with the advice and consent of the Senate. The United States is divided into twelve districts for the purpose of establishing Federal Land Banks. Each of the banks must have a subscribed capital of not less than \$750,000, divided into shares of \$5.00 each, which may be subscribed for by any

individual, firm or corporation, or by the government of any State, or of the United States. No dividends shall be paid on the stock owned by the United States, but all other stock shall share in dividend distributions without preference. The Federal Farm Loan Board is to designate five directors who shall temporarily manage the affairs of each Federal Land Bank, and who shall prepare an organization certificate which, when approved by the Federal Farm Loan Board and filed with the Farm Loan Commissioner, shall operate to create the bank a body corporate. The Federal Farm Loan Board is required to open books of subscription for the capital stock of each Federal Land Bank, and if within thirty days thereafter any part of the minimum capitalization of \$750,000 of any such bank shall remain unsubscribed, it is made the duty of the Secretary of the Treasury to subscribe the balance on behalf of the United States.

The Amendment of January 18, 1918, authorizes the Secretary of the Treasury to purchase bonds issued by Federal Land Banks, and provides that the temporary organization of any such bank shall be continued so long as any farm-loan bonds shall be held by the Treasury, and until the subscription to stock in such bank by National Farm Loan Associations shall equal the amount of the stock held by the United States Government. When these conditions are complied with a permanent organization is to take over the management of the bank, consisting of a Board of Directors composed of nine members, three of whom shall be known as district

directors and shall be appointed by the Farm Loan Board, who shall represent the public interest, six of whom to be known as local directors shall be chosen by and be representative of national farm-loan associations.

Federal Land Banks are empowered to invest their funds in the purchase of qualified first mortgages on farm lands situated within the Federal Land Bank District within which they are organized or acting. Loans on farm mortgages are to be made to co-operative borrowers through the organization of corporations known as National Farm Loan Associations, by persons desiring to borrow money on farm-mortgage security under the terms of the Act. Ten or more natural persons who are the owners of or are about to become the owners of farm land qualified as security for mortgage loans, and who desire to borrow money on farm-mortgage security, may unite to form a National Farm Loan Association. The manner of forming these associations, and the qualifications for membership, are set out in the Act.

A loan desired by each such person must be for not more than \$10,000 nor less than \$100, and the aggregate of the desired loans not less than \$20,000. The application for loan must be accompanied by subscriptions to stock of a Federal Land Bank equal to 5% of the aggregate sum desired on the mortgage loan. Provision is made for appraisal of the land, and report to the Federal Farm Loan Board. No persons but borrowers on farm-loan mortgages shall be members or shareholders of National Farm Loan Associations.

Shareholders in Farm Loan Associations are made individually responsible for the debts of the Association to the extent of the amount of the stock owned by them respectively, in addition to the amount paid in and represented by their shares.

When any National Farm Loan Association shall desire to secure for any member a loan on first mortgage from the Federal Land Bank in its district, it must subscribe to the capital stock of the Federal Land Bank to an amount of 5% of such loan, which capital stock shall be held by the Federal Land Bank as collateral security for the payment of the loan, the Association shall be paid any dividends accruing and payable on the capital stock while it is outstanding. Such stock may, in the discretion of the directors and with the approval of the Federal Farm Loan Board, be paid off at par and retired, and shall be so retired upon the full payment of the mortgage loan. In such event, the National Farm Loan Association must pay off at par and retire the corresponding shares of its stock which were issued when the Land Bank stock so retired was issued; but it is further provided that the capital stock of the Land Bank shall not be reduced to less than 5% of the principal of the outstanding farm-loan bonds issued by it. The shares in National Farm Loan Associations shall be of the par value of \$5.00 each.

At least 25% of that part of the capital of any Federal Land Bank for which stock is outstanding in the name of National Farm Loan Associations must be held in quick assets. Not less than 5% of

such capital must be invested in United States Government Bonds.

The loans which Federal Land Banks may make upon first mortgages on farm lands are provided for in Section 12 of the Act. By Section 13 these banks are empowered, subject to the provisions of the Act, to issue and sell farm-loan bonds of the kind described in the Act, and to invest funds in their possession in qualified first mortgages on farm lands, to receive and to deposit in trust with the Farm Loan Registrar, to be held by him as collateral security for farm-loan bonds, first mortgages upon farm lands, and, with the approval of the Farm Loan Board, to issue and to sell their bonds secured by the deposit of first mortgages on qualified farm lands as collateral, in conformity with the provisions of Section 18 of the Act. By the Amendment of January 18, 1918, the Secretary of the Treasury was empowered during the years 1918 and 1919 to purchase farm-loan bonds issued by Federal Land Banks to an amount not exceeding \$100,000,000 each year, and any Federal Land Bank was authorized at any time to repurchase at par and accrued interest, for the purpose of redemption or resale, any of the bonds so purchased from it and held in the United States Treasury.

It is also provided that the bonds of any Federal Land Bank so purchased and held in the Treasury one year after the termination of the pending war shall, upon thirty days' notice from the Secretary of the Treasury, be redeemed and repurchased by such bank at par and accrued interest. By Section

15 it is provided that whenever, after the Act shall have been in effect for one year, it shall appear to the Federal Farm Loan Board that national farm-loan associations have not been formed and are not likely to be formed, in any locality, because of peculiar local conditions, the Board may in its discretion authorize Federal Land Banks to make loans on farm lands through agents approved by the Board, on the terms and conditions and subject to the restrictions prescribed in that section.

The Act also authorizes the incorporation of Joint Stock Land Banks, with capital provided by private subscription. They are organized by not less than ten natural persons, and are subject to the requirements of the provisions of Section 4 of the Act so far as applicable. The board of directors shall consist of not less than five members. Each shareholder shall have the same voting privileges as the holders of shares in National Banking Associations, and shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of stock owned by them at the par value thereof, in addition to the amount paid in and represented by their shares. The Joint Stock Land Bank is authorized to do business when capital stock to the amount of \$250,000 has been subscribed, and one-half paid in cash, the balance remaining subject to call by the Board of Directors, the charter to be issued by the Federal Farm Loan Board. No bonds shall be issued until the capital stock is entirely paid up. Except as otherwise provided, Joint Stock Land

Banks shall have the powers of and be subject to all the restrictions and conditions imposed on Federal Land Banks by the Act, so far as such conditions or restrictions are applicable.

Federal Land Banks may issue Farm Loan Bonds up to twenty times their capital and surplus. Joint Stock Land Banks are limited to the issue of Farm Loan Bonds not in excess of fifteen times the amount of their capital and surplus. Joint Stock Land Banks can only loan on first mortgages upon land in the State where located, or in a State contiguous thereto. No loan on mortgage may be made by any bank at a rate exceeding 6% per annum exclusive of amortization payments. Joint Stock Land Banks shall in no case charge a rate of interest on farm loans which shall exceed by more than 1% the rate established by the last series of Farm Loan Bonds issued by them, which rate shall not exceed 5% per annum.

Provisions for the issue of farm-loan bonds secured by first mortgages on farm lands or United States bonds, as collateral, which must be deposited with the Federal Farm Loan Registrar, are made for Federal Land Banks and Joint Stock Land Banks, in each case the issue is made subject to the approval of the Federal Farm Loan Board. The farm-loan mortgages, or United States bonds, which constitute the collateral security for the bonds, must be deposited with the Farm Loan Commissioner.

Section 26 of the Act provides as follows:

That every Federal land bank and every national farm-loan association, including the capital and reserve or surplus therein and the income derived therefrom, shall be exempt from Federal,

State, municipal, and local taxation, except taxes upon real estate held, purchased or taken by said bank or association under the provisions of section eleven and section thirteen of this Act. First mortgages executed to Federal land banks or to joint-stock land banks and farm-loan bonds issued under the provisions of this Act shall be deemed and held to be instrumentalities of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation.

Nothing herein shall prevent the shares in any joint-stock land bank from being included in the valuation of the personal property of the owner or holder of such shares in assessing taxes imposed by authority of the State within which the bank is located, but such assessment and taxation shall be in manner and subject to the conditions and limitations contained in section fifty-two hundred and nineteen of the Revised Statutes with reference to the shares of national banking associations.

Nothing herein shall be construed to exempt the real property of Federal and joint-stock land banks and national farm-loan associations from either State, county or municipal taxes to the same extent according to its value as other real property is taxed.

Since the decision of the great cases of *McCulloch v. Maryland*, 4 Wheaton 316, and *Osborn v. Bank*, 9 Wheaton 738, it is no longer an open question that Congress may establish banks for national purposes, only a small part of the capital of which is held by the Government, and a majority of the ownership in which is represented by shares of capital stock privately owned and held; the principal business of such banks being private banking conducted with the usual methods of such business. While the express power to create a bank or incorporate one is not found in the Constitution, the court speaking by Chief-Justice Marshall, in *McCulloch v. Maryland*, found authority so to do in the broad general powers conferred by the Constitution upon the Con-

gress to levy and collect taxes, to borrow money, to regulate commerce, to pay the public debts, to declare and conduct war, to raise and support armies, and to provide and maintain a navy, etc. Congress it was held had authority to use such means as were deemed appropriate to exercise the great powers of the Government by virtue of Article I, Section 8, Clause 18, of the Constitution granting to Congress the right to make all laws necessary and proper to make the grant effectual. In *First National Bank v. Union Trust Company*, 244 U. S. 416, 419, the Chief Justice, speaking for the court, after reviewing *McCullough v. Maryland* and *Osborn v. Bank*, and considering the power given to Congress to pass laws to make the specific powers granted effectual, said:

In terms it was pointed out that this broad authority was not stereotyped as of any particular time but endured, thus furnishing a perpetual and living sanction to the legislative authority within the limits of a just discretion enabling it to take into consideration the changing wants and demands of society and to adopt provisions appropriate to meet every situation which it was deemed required to be provided for.

That the formation of the bank was required in the judgment of the Congress for the fiscal operations of the Government, was a principal consideration upon which Chief-Justice Marshall rested the authority to create the bank; and for that purpose being an appropriate measure in the judgment of the Congress, it was held not to be within the authority of the court to question the conclusion reached by the legislative branch of the Government.

Upon the authority of *McCullough v. Maryland*

and *Osborn v. Bank* the national banking system was established, and upon them this court has rested the constitutionality of the legislation establishing such banks. *Farmers & Mechanics National Bank v. Deering*, 91 U. S. 29, 33, 34.

Congress has seen fit in Section 6 of the Act to make both classes of banks, when designated for that purpose by the Secretary of the Treasury, depositaries of public money, except receipts from customs, under regulations to be prescribed by the Secretary of the Treasury, and has authorized their employment as financial agents of the Government, and the banks are required to perform such reasonable duties, as depositaries of public moneys and financial agents as may be required of them. The Secretary of the Treasury shall require of the Federal Land Banks and the Joint Stock Land Banks, thus designated, satisfactory security, by the deposit of United States bonds or otherwise, for the safekeeping and prompt payment of the public money deposited with them, and for the faithful performance of their duties as the financial agents of the Government.

Section 6 also provides that no Government funds deposited under the provisions of the section shall be invested in mortgage loans or farm-loan bonds.

It is said that the power to designate these banks as such depositaries has not been exercised by the Government, and that the Federal Land Banks have acted as Federal agents only in the case of loans of money for seed purposes made in the summer of 1918, to which we have already referred. But the

existence of the power under the Constitution is not determined by the extent of the exercise of the authority conferred under it. Congress declared it necessary to create these fiscal agencies, and to make them authorized depositaries of public money. Its power to do so is no longer open to question.

But, it is urged, the attempt to create these Federal agencies, and to make these banks fiscal agents and public depositaries of the Government, is but a pretext. But nothing is better settled by the decisions of this court than that when Congress acts within the limits of its constitutional authority, it is not the province of the judicial branch of the Government to question its motives. *Veazie Bank v. Fenno*, 8 Wall. 533, 541; *McCray v. United States*, 195 U. S. 27; *Flint v. Stone-Tracy Co.*, 220 U. S. 107, 147, 153, 156 and cases cited.

That Congress has seen fit to make of these banks fiscal agencies and depositaries of public moneys, and also to grant to them banking powers of a limited character, in nowise detracts from the authority of Congress to use them for the governmental purposes named, if it sees fit to do so. A bank may be organized with or without the authority to issue currency. It may be authorized to receive deposits in only a limited way. Speaking generally, a bank is a moneyed institution to facilitate the borrowing, lending and caring for money. But whether technically banks, or not, these organizations may serve the governmental purposes declared by Congress in their creation. Furthermore, these institutions are organized to serve as a market for United States Bonds.

Not less than 5% of the capital of the Federal Land Banks, for which stock is outstanding in Farm Loan Associations, is required to be invested in United States Bonds. Both kinds of banks are empowered to buy and sell United States Bonds.

In *First National Bank v. Trust Company*, 244 U. S., *supra*, this court sustained the power of Congress to enable a national bank to transact business, which, by itself considered, might be beyond the power of Congress to authorize. In that case it was held to be within the authority of Congress to permit national banks to exercise, by permission of the Federal Reserve Board, when not in contravention of local law, the office of trustee, executor, administrator or registrar of stocks or bonds.

We, therefore, conclude that the creation of these banks, and the grant of authority to them to act for the Government as depositaries of public moneys and purchasers of Government bonds, brings them within the creative power of Congress although they may be intended, in connection with other privileges and duties, to facilitate the making of loans upon farm security at low rates of interest. This does not destroy the validity of these enactments any more than the general banking powers destroyed the authority of Congress to create the United States bank, or the authority given to national banks to carry on additional activities, destroyed the authority of Congress to create those institutions.

In the brief filed upon reargument counsel for the appellant seem to admit the power of Congress to appropriate money for the direct purposes named

and in that brief they say: "Tax exemption is the real issue sought to be settled here." Deciding, as we do, that these institutions have been created by Congress within the exercise of its legitimate authority, we think the power to make the securities here involved tax exempt necessarily follows. This principle was settled in *McCulloch v. Maryland*, and *Osborn v. Bank*, *supra*.

That the Federal Government can, if it sees fit to do so, exempt such securities from taxation, seems obvious upon the clearest principles. But, it is said to be an invasion of state authority to extend the tax exemption so as to restrain the power of the state. Of a similar contention made in *McCulloch v. Maryland*, Chief-Justice Marshall uttered his often quoted statement:

That the power to tax involves the power to destroy; that the power to destroy may defeat and render useless the power to create; that there is a plain repugnance, in conferring on one government a power to control the constitutional measures of another, which other, with respect to those very measures, is declared to be supreme over that which exerts the control, are propositions not to be denied. (4 Wheaton 431.)

The same principle has been recognized in the *National Bank Cases* declaring the power of the States to tax the property and franchises of national banks only to the extent authorized by the laws of Congress. *Owensboro Nat. Bank v. Owensboro*, 173 U. S. 664, involved the validity of a franchise tax in Kentucky on national banks. In that case this court declared (pp. 668, 669) that the States were wholly without power to levy any tax directly or

indirectly upon national banks, their property, assets or franchises, except so far as the permissive legislation of Congress allowed such taxation; and the court declared that the right granted to tax the real estate of such banks, and the shares in the names of the shareholders, constituted the extent of the permission given by Congress. and any tax beyond these was declared to be void.

In *Farmers' Bank v. Minnesota*, 232 U. S. 516, this court held that a State may not tax bonds issued by the municipality of a territory; that to tax such bonds as property in the hands of the holder is, in the last analysis, an imposition upon the right of a municipality to issue them.

The exercise of such taxing power by the States might be so used as to hamper and destroy the exercise of authority conferred by Congress, and this justifies the exemption. If the States can tax these bonds they may destroy the means provided for obtaining the necessary funds for the future operation of the banks. With the wisdom and policy of this legislation we have nothing to do. Ours is only the function of ascertaining whether Congress in the creation of the banks, and in exempting these securities from taxation, Federal and State, has acted within the limits of its constitutional authority. For the reasons stated, we think the contention of the Government, and of the appellees, that these banks are constitutionally organized and the securities here involved legally exempted from taxation, must be sustained.

It follows that the decree of the District Court is
Affirmed.

Mr. Justice BRANDEIS took no part in the consideration or decision of this case.

A true copy.

Test:

Clerk Supreme Court, U. S.

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